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Nation's Business

New Joy In Toys

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Nation's Business®

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THE NATION'S BUSINESS

A weaker dollar and falling interest rates have been a mixed blessing for the housing construction industry. (Page 10)

PHOTO: PAUL CONKLIN

COVER STORY

Entrepreneur Don Kingsborough is making a mark in an expanding toy industry by combining the traditional teddy bear with electronics. He hopes his crowd of Teddy Ruxpins will scoop up a honey of a market.

PHOTO: RICK BROWNE—PICTURE GROUP

DEPARTMENTS

MANAGING YOUR BUSINESS

Girl Scout cookie superseller Markita Andrews knows something about marketing. She started out being in the right place. (Page 32)

PHOTO: T. MICHAEL KEZA

PEOPLE/PERSONAL

Joseph Jacobs, in building his international construction company, has allowed his employes to make mistakes—as long as they learn from them. (Page 93)

PHOTO: CHRIS CASSLER

TECHNOLOGY

Kenneth Fogash is in charge of the SEC's new data retrieval system, called Edgar. (Page 85)

PHOTO: T. MICHAEL KEZA

COVER PHOTO: RICK BROWNE—PICTURE GROUP

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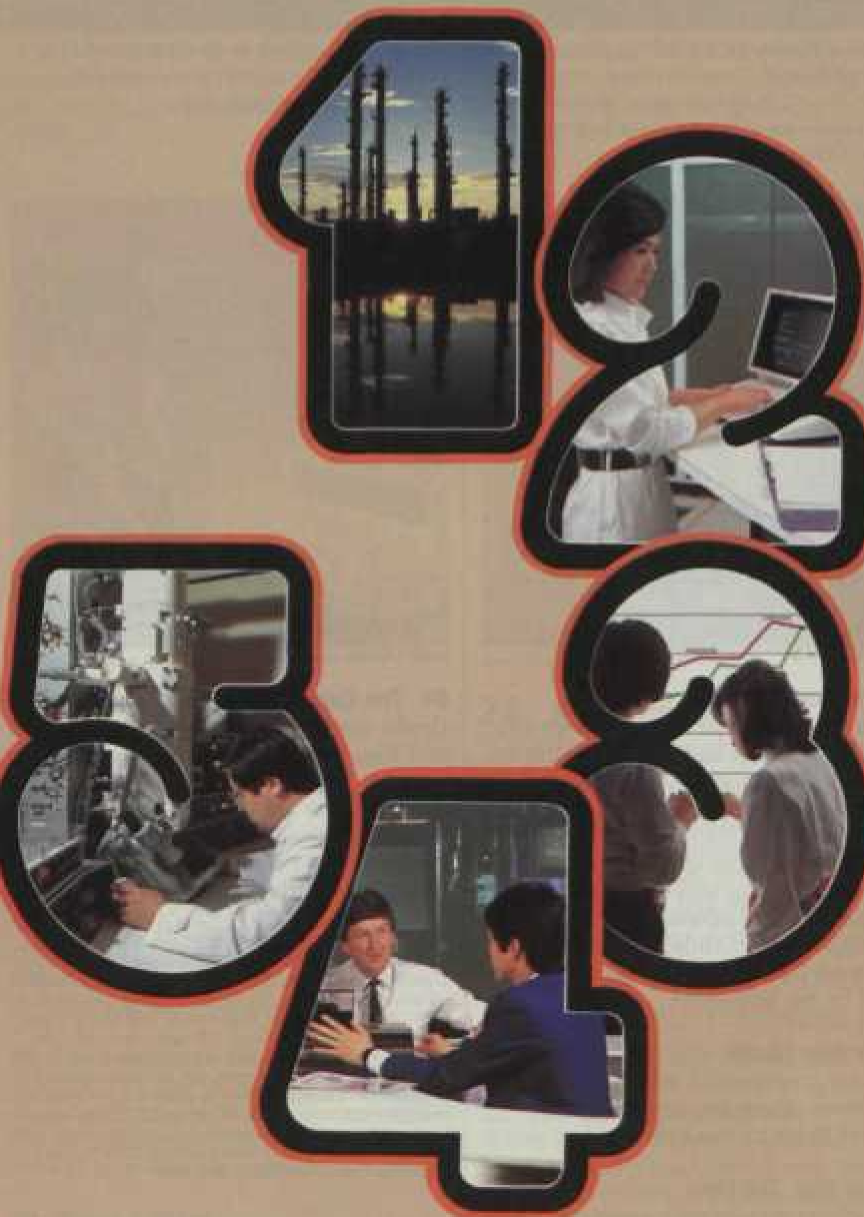

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Not Kid Stuff

Re: "The Business Whiz Kids" [November].

I imagine plenty of folks will take offense at this statement in the article:

"They fell in love with the business world early and quickly evolved beyond the normal childish money-making ventures of selling lemonade, babysitting and delivering newspapers to become bona fide business persons."

Contrary to what the article suggests, delivering a newspaper route is one of the finest lessons in business economics that a youngster can experience.

The Little Merchant plan that most newspapers practice with their carriers provides the important experience of buying at wholesale, selling at retail and suffering some bad debts. These carriers have bank accounts, some put themselves through college on their earnings, and most buy their own clothes and supply themselves with spending money.

If this is childish, then I'm a Chinese aviator.

William H. Klusmeier
Marketing Director
Kerrville Daily Times
Kerrville, Tex.

Our client, Barry Minkow, was one of the "whiz kids" featured in your November issue.

We appreciate your coverage of Barry, but it was disappointing to read his last name misspelled as Minko.

Kari Maxwell
Account Executive
Jeri Carr Public Relations, Inc.
Sherman Oaks, Calif.

By Popular Demand

I'm dying to know the rationale for your magazine's consistent spelling of the word "employee" as "employe." I've never seen this spelling anywhere else and do not find it in the dictionary.

As a reader, not a spelling expert, I find it annoying to constantly encounter this common word spelled incorrectly, even though it is obviously done intentionally.

Ruth Williamson
Seattle

Editor's note: Actually, both spellings are recognized as correct by *Webster's Third New International Dictionary*, which NATION'S BUSINESS accepts as the ultimate arbiter in such matters. A number of newspapers and other publications have used the "employe" spelling for many years. There is no question, though, that the longer spelling is more common, and this magazine will adopt it starting with the January issue.

Ties That Bind

Re: "For Richer, For Poorer" [September].

My wife, Barbara, and I are business associates. Your article was right on point. It is the ultimate relationship.

Ronald Davis Balser
President
Management Compensation Group Southeast, Inc.
Atlanta

High Voltage

"Avoiding Pension Shock" [October] overlooked another "debilitator" that, in terms of "shock," can be a high voltage item.

The author, John O. Todd, Jr., did acknowledge that if the fictional Harry Cooper wanted to provide two thirds of his pension benefit to his wife after his death, he would have to take a \$3,640 cut in annual pension benefits. What Harry would get for that investment was the assurance that his wife would receive about \$12,000 a year after his death for the rest of her life; that translates into a \$300 investment each month, beginning at retirement, to fund the \$1,000 monthly benefit that Harry's wife *may* receive at some point in the future—if, that is, she does not predecease him.

If she does, Harry's pension will not be increased. Harry will go right on paying, in effect, \$300 a month to fund a benefit that no one will ever receive.

Harry does have an alternative. He can, with his wife's written permission, choose a pension that provides no benefits after his death, a move that will increase his gross pension benefit by \$3,640 a year.

Using life insurance, he can insure his life for the amount necessary to provide, upon his death, a guaranteed income of \$1,000 per month to his spouse for the rest of her life. He can even reduce the death benefit, and his premium, as she gets older, since the amount needed to assure her income will decline with age.

Gary D. Biggs
Second Vice President, Marketing Services
United of Omaha Life Insurance Company
Omaha

Continued on page 8.

Send letters to Editor, NATION'S BUSINESS, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

JAMES J. KILPATRICK

Japan's Hard Work

Toward the end of September I spent a week in Japan—five days in Tokyo, two days in Kyoto. Though I have passed a fairly considerable time in Europe, the Middle East and Africa, this was my first visit to the Orient. The seven days naturally qualified me as an expert on Japanese language, culture, education, politics and trade. Ho-ho-ho. I am a scrutable fellow myself, about as transparent as a bottle of gin. The Japanese, I suspect, are about as transparent as motor oil. To a visiting American journalist they are the nicest, kindest, most affable people on earth, but just as it is often said, they are indeed—inscrutable.

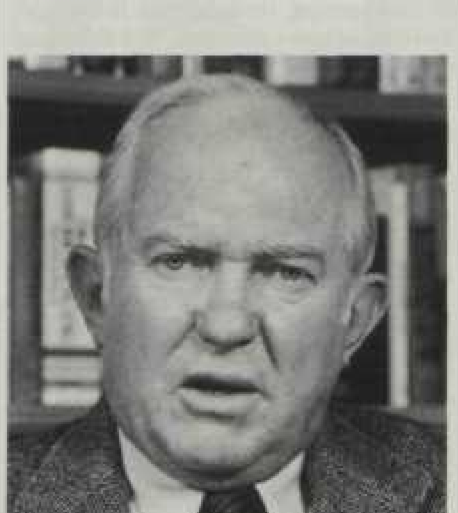
The less said of the Japanese language the better. I learned this much about the spoken language: There is a word for "no"—it is pronounced something like ee-ee-yeh—but it is seldom used. The Japanese hate to say no; they say "yes, but," which means no. As for the written language, it demands a reasonable mastery of two alphabets and 2,000 Chinese ideograms, and the only way to read and write Japanese is to be born Japanese. For most of us, this is much too late.

Many aspects of the old Japanese culture are disappearing.

One night in Tokyo my hosts took me to a traditional Japanese restaurant. Few of these remain. We were attended by two ravishing young women in full kimonos. They knelt, sat back on their heels and arose with the effortless grace of a good shortstop fielding a grasscutter. They radiated vitality. I cannot believe such good health resulted from a diet of raw tuna, chicken broth and old kite string, but who knows? My hosts inquired how I liked sake, and being scrutable, I said it tasted like Listerine. They provided me with Budweiser instead, and in a further gesture toward relieving the imbalance in trade, one of my hosts held up his shoes as we departed. "Look," he cried, "Florsheim!"

Let me be serious about education. One morning I went to a Tokyo high school. Japanese students go to school from 8:30 to 5:00 on weekdays, and from 8:30 to 12:25 on Saturdays. They are in classes 240 days a year. Students may elect to major in the humanities or in mathematics or science, but they must take three years of English, two years of math (including trigonometry) and two years of laboratory science including chemistry. There are none of the smorgasbord electives offered in U.S. high schools. Art and music are not neglected—this high school has its own 80-piece symphony orchestra—and physical education is stressed. In the past five years, an assistant principal told me, the only disciplinary problems have involved three incidents of students caught smoking. Student pregnancies are unknown. Nobody ever drops out.

The Japanese hate to say no; they say "yes, but," which means no.



Comparisons are odorous, as Constable Dogberry observed in "Much Ado About Nothing," and comparisons with our typical U.S. high schools are remarkably odorous. We must think about these things.

When it came to Japanese politics I felt more at ease. One day I called on Prime Minister Yasuhiro Nakasone. He is a truly inscrutable gentleman. My questions bounced off him like shots in a handball court, but I came away with a new understanding of why he and President Reagan are so close: They share the same problems. Mr. Reagan has a deficit; Mr. Nakasone has a relatively bigger one. The President has terrible troubles with Republicans in the Senate; the prime minister has the same troubles with factions of his own Liberal Democratic Party in the Diet. Both leaders are trying to shed their national railways; both are worried over the politics of pension programs; both are working hard to improve trade relationships; both are finding it difficult to increase spending on defense. Yas and Ron, as they address each other, both are lame ducks. They are brothers under the skin.

This year will probably see our trade imbalance with Japan soar to $50 billion. As you can imagine, everywhere I went I heard the Japanese side of the story.

Nakasone and his associates insist, in brief, that they are doing everything that possibly can be done to relieve the tension. They have repealed many tariffs outright; they have instituted graduated reductions in such sensitive areas as wood products and paper products; they have made changes that will permit far more competition in telecommunications; they are prepared to accept U.S. testing data for many pharmaceuticals. Two thirds of the imbalance, they say, is caused by the dollar's strength against the yen. Part of the problem rests with poor marketing by U.S. producers, and part with the perceived poor quality of some American products. On many issues of trade, Mr. Nakasone has to cope with country boys in the Diet just as Mr. Reagan, on a dairy bill, has to cope with Wisconsin's William Proxmire in the Senate. Politics are tough all over.

Speaking as a seven-day expert, I was persuaded but not convinced that the Japanese are doing all they can, but my guess is that negotiating with the Japanese is like lying down on a feather bed. You sink into affability, in a society in which everybody bows from the waist and agreeably says ah, so. These are a tough people. You look back 40 years to the devastation of World War II, and you ask in amazement how the Japanese have done what they've done. "We have worked so very hard," a banker told me. It was a sobering thought to think about on the plane back home. NB

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LETTERS

Continued from page 5.

The Squeaky Wheel

Re: "Beef With The IRS" [Direct Line, October].

Our company has used another approach to receive fast and courteous answers from the Internal Revenue Service.

After almost a year of letters and calls to the IRS, I found that a call to the local office of Rep. Bobbi Fiedler (R-Calif.) was all that was needed. Her field representative asked that we send copies of all correspondence to the office; two days later, we received a call confirming receipt of that information. Two days after that, we received a handwritten note from the IRS, stating that the problem should be cleared up in about a week.

Rep. Fiedler's office sent a letter asking us to call when the case was settled—and thanking us for our inquiry.

Outcome: case settled within two weeks. No delays—thanks to a member of Congress and her staff.

Barbara Waycott
Vice President
Diversified Images, Inc.
Chatsworth, Calif.

Credit Where It's Due

Re: "Office, Sweet Office" [September].

I was most impressed by the article, but I was disappointed that it did not mention the contributions of Marion R. Behr, who founded the National Alliance of Homebased Businesswomen in 1980—the *first* organization for home-based entrepreneurs. Her testimony at the Labor Department in 1984 was pivotal in obtaining reversal of part of the regulations prohibiting home knitting. The U.S. Chamber of Commerce was clearly impressed by her testimony, since it formed the basis of the testimony given by a representative of the Chamber in favor of Sen. Orrin Hatch's (R-Utah) Freedom of Workplace Act.

Omri M. Behr
Edison, N.J.

Turning The Trade Tide

Re: "Keeping Afloat In The Import Flood" [September].

America has not produced a passenger car that could be delivered as a right-hand drive car since the mid-'20s. The American auto manufacturers produced progressively bigger and more powerful cars that were totally unsuited to foreign conditions and not particularly desired by a large part of the American public, either. They had no desire for a foreign market.

No one could be bothered producing small refrigerators, suitable for foreign homes—until the Japanese produced them and appropriated a large part of the American market in apartments and wet bars.

American sawmills were unwilling to finish lumber to foreign specifications. Now that American sawmills are closed and closing, their spokesmen complain that the Japanese market is not open to them and that the Japanese should close their own sawmills so that we can open ours.

We are told that the Japanese do not want to buy American goods. This is simply not true. They want to buy, and will buy, anything that is U.S.-made—if it is perceived to be well made and is properly serviced, advertised and marketed.

They are quality shoppers. They will not buy what is unsuitable, unknown, off-brand or off-priced. And they cannot buy what is not available.

If we are not to become another France or England, we must turn from our protectionist, government-subsidy mentality. We must once again become the Yankee traders of the last century. We must cease protecting the buggy-whip makers who do not wish to compete in today's world.

W.W. Bretherton
Phoenix

I believe President Reagan is correct in his stand against protectionist laws. There should be other ways that we can protect American industries while improving our position in foreign markets.

The Reagan administration may want to encourage Americans to purchase American-made goods when the prices are not much more than those of foreign-produced goods. That would put protectionism on a voluntary basis with each person.

Likewise, more pressure should be put on those states whose attitude is one of accepting the lowest bids no matter where the goods are made.

The United States is capable of solving its problems without a lot of new laws. Hard work, common sense, reasonable loyalty and the worship of God will make a tremendous impact.

Marvin E. Richardson
President
Mississippi Time Instruments Company
Jackson, Miss.

THE NATION'S BUSINESS

Business Outlook

Housing Under Pressure

A low inflation rate and falling interest rates have not rescued the housing market. A lackluster performance for housing starts in 1985 will probably be repeated in 1986.

Contractors and their suppliers, mortgage bankers and many first-time home buyers are finding that low inflation and falling interest rates are not the panacea many expected.

Though the overall economy will rebound next year, the housing industry may continue a 1985 performance many industry leaders describe as below par. The 1.32 million housing units started in the first nine months of 1985 represented a 4 percent drop from the same period last year, even though the average 12.25 percent mortgage interest rate is the lowest in six years.

Ronald F. Poe, president of the Mortgage Bankers Association of America and chief executive of Dorman & Wilson, a White Plains, N.Y., mortgage banking company, says a hoped-for housing boom has not occurred because many lenders are tightening their underwriting standards. He blames that on an increase of mortgage delinquencies and foreclosures.

Lenders can reduce future losses by requiring larger down payments and by demanding that borrowers have more income. Therefore, tighter credit standards have the effect of shrinking the pool of borrowers qualified for mortgages at a given rate of interest. As a result, the increased sales many builders anticipated have not materialized, despite lower interest rates.

Industry officials say several factors are to blame for the bad loans. In some cases, adjustable rate mortgage payments are rising faster than incomes. It is not uncommon for adjustable rate mortgages to have monthly payments 20 percent above the original terms. Those payments were negotiated in the early 1980s, when interest rates were sky-high and it seemed that hyper-inflation was here to stay.

In some areas, homeowners unable to meet payments accept foreclosure rather than sell their property because a drop in resale prices has made it worth less than the outstanding mortgage.

The hardest hit areas are in states in which a major industry is suffering,


PHOTO: PAUL CONKLIN

such as the forest products industry in Oregon, the Texas oil and gas industry and the steel industry in western Pennsylvania. Other states the Mortgage Bankers Association says have pockets of bad loans include California, Michigan, Illinois, Florida, Oklahoma, Colorado, Indiana and Arizona.

One major mortgage lender in the Southeastern states, Charlotte, N.C.-based Cameron-Brown Company, says that tighter underwriting criteria will have an effect similar to that of adding two percentage points to the average interest rate on a mortgage. The down payment and income required to qualify for a given rate of interest is going up, and many borrowers will find themselves in categories carrying higher rates.

Those tougher guidelines will hit first-time home buyers especially hard because they generally have less cash and smaller incomes than do borrowers who already are homeowners. Under the new guidelines, a buyer now able to afford a $60,000 house will need 12 percent more income to qualify for a loan on that same house.

Well-heeled home buyers are also feeling the pinch, in at least one respect—mortgage insurance is getting more expensive. This insurance guarantees payment in the event of borrower default, and many lenders now require it on vacation homes and more costly houses. First year rates for mortgage insurance have recently risen 25 percent. It is also harder to get such insurance. Insurers are paying closer attention to the underlying value of the insured property.

Thomas M. French., Jr., Bank of Boston director of mortgage banking, says low inflation in property values means that lenders can no longer depend on the appreciating value of a house to protect their investment. Inflation can no longer be counted on to bail out most problem loans, French says.

Lyle Gramley, the Mortgage Banking Association chief economist, who until recently was a Federal Reserve Board governor, says that housing prices, "show no signs of a substantial upturn in the future." He says that consumers' attitudes signal a continuation of current expectations of low inflation.

Effects of lower inflation on housing; the weakening dollar and economic growth.

Strong Growth Ahead

Preliminary forecasts indicate the weakening U.S. dollar overseas is making economists more bullish about the performance of the economy next year. A weakening dollar means that American exports can become more competitive and imports less competitive in U.S. markets.

As recently as September, the consensus forecast by members of the National Association of Business Economists called for the output of goods and services to grow at only a 2.7 percent annual rate next year.

Roger Williams, the respected publisher of Williams Trend Indicators, an Orangeburg, N.Y., economic newsletter, forecasts that GNP will grow between 5 and 6 percent from the current quarter through the last three months of 1986.

Albert Wojnilower, chief economist at First Boston Corporation, one of Wall Street's largest underwriters, is only slightly less bullish. He says economic growth averaging 3 to 4 percent "seems likely for an extended period." Wojnilower says that short term results will be affected heavily by changes in inventory. When inventories are declining, growth may fall short of that mark. When retailers restock their shelves, rising inventories may result in faster economic growth.

Richard Rahn, U.S. Chamber of Commerce chief economist, forecasts an average economic growth rate of 3.7 percent next year.

He says the major threat to that forecast is the uncertainty caused by tax reform proposals. Rahn says those proposals have probably caused businesses to scale back investment plans already. Some of the tax-law changes being considered by Congress would severely penalize investment in business equipment, Rahn says.

Some economists say that additions to inventories will provide the lion's share of next year's growth. The level of investment in new equipment will depend largely upon how much business profits grow.

More Flexible Economic Policies

Treasury Secretary James Baker (right) has smoothed relations with Fed Chairman Paul Volcker.

PHOTO: ANDREW POPPER—PICTURE GROUP

Over the next three years, business can expect the Reagan administration to show more flexibility in its handling of economic policy than it has in the previous five years.

That increased flexibility is manifested by the administration's decision in September to intervene in currency markets to bring down the dollar's value; by its decision to ask the nation's largest banks to step up their lending to third world nations; and in the President's new get-tough trade policy.

Mining companies, manufacturers and farmers are the three groups that are apt to benefit the most from these new policies because they are the sectors of the economy hardest hit by a combination of the strong dollar, low inflation and slow growth in traditional export markets.

Treasury Secretary James A. Baker III and his deputy, Richard G. Darman, have emerged as the two most powerful economic policy makers in government. They have consolidated power more effectively than did Baker's predecessor, Donald Regan, now the President's chief of staff, who was forced to share authority with the president's top aides in the White House (including Baker).

Other signs of the new policy abound. The sometimes rancorous relations between Regan's Treasury Department and Federal Reserve Board Chairman Paul Volcker have been replaced by a new spirit of cooperation. Treasury and Fed officials are now working behind the scenes to come up with proposals that officials hope will improve the existing system of floating exchange rates.

Darman told a recent meeting of top business executives that "procedural reforms" in the international monetary system may make it possible to coordinate the industrial nations' economic policies more effectively.

Economists say one way to bring the dollar's value down is to reduce government spending in the United States and get Japan and West Germany to stimulate their domestic economies.

Proposals on better coordination of international economic policy are likely to be taken up at the next economic summit, scheduled for Tokyo next May.

THE NATION'S BUSINESS

Washington Roundup

Veto Alternative

From left, Rep. Connie Mack (R-Fla.) and Sen. Phil Gramm (R-Tex.) greet J. Allen Overton, Jr., of the American Mining Congress at a rally.

PHOTO: T. MICHAEL KEZA

The Gramm-Rudman-Hollings plan to eliminate budget deficits by 1991 does not eliminate the need to give the President line-item veto power, backers say.

The Balanced Budget and Emergency Deficit Control Act, sponsored by Sens. Phil Gramm (R-Tex.), Warren Rudman (R-N.H.) and Ernest Hollings (D-S.C.) is designed to end deficit spending.

Line-item veto authority would allow President Reagan to restrain spending by rejecting specific items in large appropriations bills that he must now approve or turn down in their entirety.

A line-item veto, like any other veto, could be overridden by a two-thirds majority in Congress. But Congress has thus far resisted efforts to implement the plan.

Senate veto supporters fell two votes short of the 60 needed to break an early-summer filibuster preventing a vote on their proposal. But Sen. Mack Mattingly (R-Ga.), a leading sponsor of the line-item veto plan, declared that effort "merely the beginning of the next stage in the legislative battle." He said he planned to seek other votes late this year during consideration of 1986 spending bills.

The line-item veto drive was upstaged, however, by the broader emergency budget-control effort.

This plan calls for making budgets proposed by the President and approved by Congress conform with declining deficit ceilings. The President would be required to cut spending if the Congressional Budget Office and Office of Management and Budget agree that the year's deficit limit is likely to be exceeded. Almost all programs except Social Security would be cut by an equal percentage.

Some observers see the presidential authority in the plan as a form of line-item veto. Backers of separate legislation to confer the veto authority on the President point out, however, that the Gramm-Rudman-Hollings bill will expire with the scheduled elimination of deficits in 1991.

Many backers of the veto want to implement it through a constitutional amendment, which would require concurrence of 35 states—and could be repealed only by the same number.

East-West Trade

Arms talks between President Reagan and Soviet leader Mikhail Gorbachev, Nov. 19-20 in Geneva, could expand export opportunities in Eastern Europe for American businesses, a Hungarian diplomat told NATION'S BUSINESS.

"Improvement in relations between the two biggies will have a beneficial impact on East-West trade as a whole . . . because we won't have to divert so many resources to wasteful armaments purchases," he said.

Trade with the Soviet Union, Hungary, East Germany, Czechoslovakia, Poland, Romania and Bulgaria is already lucrative for many U.S. firms. Trade with the Warsaw Pact nations was $5.7 billion in 1984 and will be $6.4 billion this year, according to the Commerce Department.

And, if defense spending is curbed, the Pact nations are expected to intensify efforts to modernize industry and achieve greater productivity. Shrewd business people here could make big sales of equipment to enhance the East's ability to retool and diversify into more sophisticated product lines.

American firms might have to accept goods, instead of cash, in payment, says Commerce Department expert Jay Burgess. Western European firms, especially German ones, have long profited from such payment arrangements.

It's A Lie

Businesses as diverse as hotels and pharmaceutical manufacturers are concerned about representatives' contradictory actions on polygraph testing.

Many firms now use polygraphs to identify security risks among job applicants and distinguish innocent from guilty employes when workplace crimes are committed. Such testing, business users say, helps protect them, innocent employes and consumers,

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TAX REFORM NOW

Our present tax system is unfair.

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Instead of 14 different tax rates, there would be 3. And for all Americans, the new rate would be lower than the old. That means the average American would pay less.

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Produced by Americans for Tax Reform, 1800 M St., N.W., Suite 475, Washington, D.C. 20036

Budget deficits and the line-item veto; in defense of parking perks; using lie detectors.

Walter Atwood, past president of the American Polygraph Association, conducts a polygraph test of the kind that increasing numbers of businesses are administering to employes.

PHOTO: SUSAN MUNIAK

whose costs are increased by white- and blue-collar crimes.

Days Inn of America, an Atlanta-based chain of motels, told a House committee that use of polygraphs, begun in 1975, has reduced annual employe theft from more than $1 million to $115,000, and has resulted in more than $1 million in employe restitutions.

In June, the House overwhelmingly endorsed polygraph use. Representatives voted, 333-71, to increase Department of Defense testing of personnel with access to classified information.

But more than 160 representatives now are co-sponsors of the so-called Polygraph Protection Act, a proposal by Rep. Pat Williams (D-Mont.) to ban "intrusive and inaccurate" polygraph testing by businesses.

Parking Perk Pull

When Alexandria, Va., Mayor James P. Moran, Jr., suggested recently that the convenient, and free, "officials'" parking lot at Washington National Airport be opened to the paying public, lawmakers' howls of outrage were as swift and loud as a jet airplane.

Thirty-eight representatives wrote the Federal Aviation Administration that the sanctity of the 100-car lot, a few steps from the main passenger terminal, must be upheld.

Members of Congress "truly need ready access to parking because of the unpredictable nature of voting" in the House and Senate, said the letter, authored by Rep. Philip M. Crane (R-Ill.).

In fact, the nine Supreme Court justices and thousands of diplomats assigned to Washington should be expelled from the officials' lot, the letter asserted.

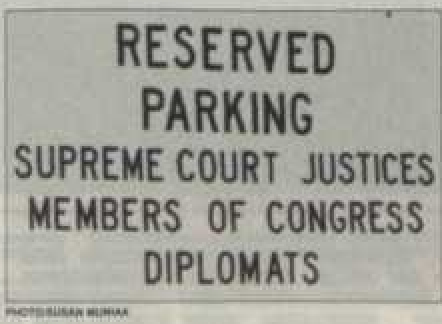

PHOTO: SUSAN MUNIAK

Capital Update

Business Transfer Tax

Business is carefully studying the merits of a so-called Business Transfer Tax (BTT), proposed by Sen. William V. Roth (R-Del.).

The BTT, which would replace certain existing levies on business, is part of a tax reform package that would provide greater economic growth than either President Reagan's plan or the House Ways and Means Committee alternative, says Roth.

The proposed BTT would be 7-10 percent of net receipts from U.S. sales of goods and services—export sales would be exempt. Small businesses also would be exempt from the BTT, under Roth's proposal.

Job Site Violence

Sen. Charles Grassley (R-Iowa) says he will attempt to bypass the Judiciary Committee and bring his Hobbs Act reform proposal directly to the Senate floor, possibly this month.

The Judiciary Committee blocked earlier attempts by Grassley to make construction job site violence a federal crime punishable under the Hobbs Act, an anti-extortion law.

The bill is near the top of many construction employers' legislative agendas, but building trades unions are determined to block it.

Federal Retirement

A revised federal civil service retirement program should be modeled after the private-sector system, a former member of Congress says.

Congress has until the end of the year to devise a new retirement program for federal workers hired after 1983, and former Rep. John N. Erlenborn (Ill.) believes cost-of-living and early-retirement provisions of the new program should mirror those in private industry.

Erlenborn, former senior Republican on the House Education and Labor Committee, says many present civil service retirement rules are inequitable and cost taxpayers too much.

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EET SALES

THE NATION'S BUSINESS

Small Business Report

By Mary-Margaret Wantuck

Investors Over There

The Unlisted Securities Market of the London Stock Exchange offers emerging companies that want to go public abroad the opportunity to get top value for their stock.

Small U.S. firms are discovering that going public on foreign stock exchanges is a good way to raise capital without giving up too much control. The value of a share overseas can be as much as twice its value in the United States. The greater the market value, the smaller the percentage of the company the owner has to relinquish when the company goes public.

The Unlisted Securities Market of the London Stock Exchange is currently the only trading post for this type of foreign business. Six small U.S. firms belong to this market. The unlisted market was founded in 1980 as the exchange's tier for smaller, emerging companies. Even though the market is labeled "unlisted," the stock exchange daily publishes USM stocks, designating them as such with an asterisk.

Unlisted market companies are subject to fewer reporting requirements and lesser stock exposure standards than are fully listed companies.

"As their governments turn more and more socialist, foreigners are viewing the United States as the last bastion of democracy," says Raymond Wittig, a Washington attorney who has been involved in overseas offerings. "America is the one place where they can safely place their money and know that it will be stable and secure."

As a result of this confidence and the feeling that the U.S. business climate offers more opportunity for growth, foreign investors are willing to pay a good deal more for American stock than are Americans themselves. For example, United Chem Con, a Lancaster, Pa., electronics firm that is on the verge of completing its initial public offering in Great Britain, values the company at 10 times its earnings. In Britain, the earnings multiple is 26, according to a spokesman for United Chem Con. In Britain, United Chem Con can sell less and get more in return.

It is also cheaper to go public on the USM exchange than it is in the United States. A typical company can expect to pay 18 percent to 22 percent of what it raises for underwriting, accounting, printing and legal fees. In Great Britain, the bite is only between 8 percent and 12 percent.

PHOTO: BETTMAN NEWSPHOTOS

Going public in Britain is very similar to the U.S. system, according to Wittig. The most radical difference is that British rules dictate that a company's stock is valued on what its profit projections are for the coming year. Under U.S. laws, a firm's stock value is based on its performance the preceding year.

"The most grievous sin that you can commit in the British system is to miss your projection," says Wittig. "People expect a company owner to be a good enough manager to be able to foresee whether there will be a down year or not." While there are no official penalties for a bad call, the company risks losing its credibility on the market, and the stock values may depreciate.

Good management will always be emphasized at Pacer Systems, a Burlington, Mass., engineering and technical services firm that went public this past July. Pacer is valued at close to $10 million, and John Rennie, the company's president, expects to double last year's $313,000 earnings.

Wittig forecasts that other countries may soon follow Britain's example and allow small firms onto their exchanges. Accordingly, more small companies will be taking advantage of the foreign investor's faith in America. "This is clearly a trendy thing to do," he says. "The multiples speak for themselves."

Ad Innovators

Small businesses with low advertising budgets can help themselves, according to Bruce David and Gary Tartaglia. The two former advertising executives started Worthprinting Ltd. in Twinsburg, Ohio, to serve businesses with budgets considerably lower than $20,000.

The company publishes *Shoestring Marketer*, a bimonthly newsletter that gives helpful hints on how entrepre-

Going public on a foreign stock exchange; advertising expertise for companies on tight budgets; getting capital from the big guys.

neurs can promote their business effectively on limited budgets.

Some pointers the two entrepreneurs offer are:

- Research the market to know what and to whom you are selling.
- Develop a hook or angle that is a blend of publicity and paid advertising that will appeal to the news media.
- Use cross-promotions where other merchants hand out your coupon or ad message for nothing.
- Write articles and letters to the editor.
- Look for ways to supplement traditional ways of advertising. Community involvement is one way. Says David: "We had a commercial printer who wanted to get some free publicity. It was during a major recession with high unemployment.

"We sent out a news release to about six publications with our client offering 25 copies of a resume free to anyone who was unemployed, plus providing a four-page booklet on successful interviewing tips. It was picked up by about four newspapers and two radio stations that listed this promotion after every news broadcast for a solid week. One paper supplier even donated a case of paper. The client ended up getting a couple thousand dollars of free advertising for a few dollars worth of stamps."

Cross promotions can help beat limited ad budgets, says Bruce David, publisher of a newsletter on low-cost advertising hints.

PHOTO: PAUL TEPLEY

"We tell people to outsmart their competitors—not outspend them," says David.

Small Notes

☐ There are 12 rules for successful small company growth, according to such entrepreneurial experts as Karl Vesper, professor of entrepreneurship at the University of Washington, and William Gartner, director of the Center for Entrepreneurial Studies at Georgetown University. They are: recognize areas of management weakness and hire accordingly to fill in the gaps; resist the temptation of appealing but rash commitments that may stretch existing resources; avoid cash crunches; expand into markets that make sense; delegate; get financing while things are going well; reach out for help; use dynamic marketing strategies; specify goals and targets; plan and budget; be organized; and remain entrepreneurial.

☐ Arthur Young & Company, an international accounting firm, has introduced its FastPlan, a microcomputer-based financial and reporting model that allows small manufacturing and distributing firms to identify future capital and financing needs, allocate company resources and construct "what if" scenarios in operating plans. It's available for $495, including a user's manual and two hours of free consulting on business or strategy planning from any of Arthur Young's 85 offices, or by calling (800) 524-0425 (in New Jersey, 201-493-8031).

Corporate Venture Capitalists

Venture capital is not the only option open to emerging companies that are seeking financing through investors. Linking up with corporations directly is another alternative for small firms, say David Thompson and Albert Pastino, partners with the accounting firm of Deloitte, Haskins & Sells, and co-authors of a paper on the subject.

More and more corporations are making investments on their own, says Norman Fast, president of Venture Economics, Inc.

Big name companies like Monsanto, General Motors, Tektronics, Eli Lilly, Warner-Lambert and International Business Machines have become direct investors. There were 30 deals in 1980; the number increased to 200 in 1984. At an average of $2 million to $3 million per investment, this represents up to $500 million of corporate money.

According to Thompson and Pastino, corporations are investing for several reasons: identifying windows into new technologies and getting a jump on change and innovation in their own markets; learning about new markets for the existing business; screening potential acquisitions; enhancing corporate image and thereby potentially increasing stock value; giving managers a chance at more exciting jobs.

As far as the entrepreneurs are concerned, the benefits go well beyond a cash injection. Corporations can provide assistance in strategic planning, marketing, research and development, facilities, distribution, manufacturing and lines of credit.

For instance, the risk management group of Lubrizol Corporation, an international chemical company based in Ohio, helped ChemDesign, a small Massachusetts specialty chemical firm, examine the options when it was re-evaluating its insurance program.

Richard Brooks, the chief executive officer of ChemDesign, notes that his "business relationship with Lubrizol has evolved into a real partnership—a synergy between an entrepreneurial enterprise and an investor."

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Answers To Your Questions

Help with business problems, from creating a new image to pricing a cleaning service.

Creating An Image

I have a seven-year-old self-service car wash. Whom do I contact to create a new and exciting image of my car wash, from a new logo and stationery to a new look at the car wash itself?
W.T.C., Raleigh, N.C.

Bob Sieler, director of marketing for Landor Associates, an international strategic design consulting firm, suggests looking up graphic design firms in your area. Interview several, asking if they have experience in the areas of design you're seeking. Narrow your choices to two or three firms and look at their work. Go over cost, strategy of design (what they think their particular design will accomplish) and how long it will take them to finish.

Margi Trapani, communications director of the Graphic Artists Guild National, suggests buying *The Graphic Artists Guild Handbook: Pricing and Ethical Guidelines* ($16.95). The handbook, sold in most book and art supply stores, will give you ballpark figures on average costs of various services.

Leasing Workers

Your article on "Leasing People" by Harry Bacas in the October, 1984, issue of NATION'S BUSINESS sounds like a service needed in the Salt Lake City area.

We are interested in starting such an operation but have been unable to locate people mentioned in that article such as Carmen Arno, who helps leasing companies get started. Could you give us a lead?
B.B, M.W., D.B., Salt Lake City

Carmen Arno and Marvin R. Selter, another leasing pioneer, recently formed a company called The National Staff Network to assist leasing companies. Arno is executive director and Selter is chairman. The address is 6399 Wilshire Boulevard, Suite 1010, Los Angeles, CA 90048. The phone is (213) 651-4747.

Conflict Of Interest?

I am on active duty in the U.S. Navy and am looking for a rewarding business to break into when I will retire in a few years. I recently received a letter from a multilevel marketing company that interested me. Do I face any legal repercussions from the government by joining this marketing network while on active duty?
L.P., USS Midway

Most government agencies have rules on outside employment. The higher your rank, the stricter the rules. In general, outside work is allowed if the hours and activities do not interfere with your regular job and if the work does not involve people or companies you deal with in your job. Every military command has ethics counselors and you can apply through channels to your ethics office for an answer to your question. Or you can write directly to the Office of Government Ethics, P.O. Box 14108, Washington, D.C. 20044, and get a personal response.

Competing In Japan

The Japanese recently paved the way for greater internal competition in telecommunications. Will that mean increased sales opportunities for American companies?
N.D.Y., Denver

Last April, the Japanese Diet passed a law to turn Nippon Telephone & Telegraph Corporation into a private company, thus ending its 30-year status as a telecommunications monopoly. At the same time, the new enterprise law went into effect authorizing the creation of alternative networks to compete with NTT's. These changes should generate opportunities for both U.S. and Japanese companies. The United States is in a particularly good position to sell Japan satellites and value-added products such as enhanced data communications services.

Cleaning Rates

I am trying to start a cleaning service company for office buildings. How can I find out how other companies come up with a basic charge? Is there a basic rate per foot, or is it just your best guess?
J.H., Glendale, Calif.

Scott Mooring III, vice president for marketing of Steamatic, Inc., a franchised cleaning service, says: "In pricing quality work, you should be able to charge between 8 cents and 12 cents a square foot—depending on whether you have to move the furniture. On a large volume of cleaning, in order to be competitive, you might have to go as low as 5 or 6 cents."

Swept Away

I just started a chimney sweep business and am having problems getting things off the ground floor. I have advertised in local papers and handed out flyers with no luck. I just don't know where the key is. I have even considered that it may be lack of knowledge of homeowners about the importance of having their chimneys cleaned regularly. How does such a small business educate the homeowner?
C.B.B., Springtown, Tex.

Cone & Company, Inc., a Boston-based public relations firm specializing in the educational approach to advertising, suggests you come up with a brief, light-hearted history of chimney sweeping to be used in your advertising. List the benefits of proper chimney care and the hazards of neglect.

The firm also suggests speaking to community groups like homeowners' organizations and real estate associations. Such groups are usually looking for interesting guest speakers. You could grab their attention by showing up clad as Mary Poppins or a chimney sweep to educate them about your service.

Joan Sutton, a Century 21 relocation coordinator in Falls Church, Va., recommends giving your flyer to real estate brokers to give to their homeowner clients. If the homeowner uses your service, the newly cleaned chimney can be cited as an attraction for prospective home buyers.

How To Ask

Have a business-related question?

Write to: Direct Line, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

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COVER STORY

The Joy In Toymaking

By Penny Gill

The traditional and modern mix of products that has brought the toy industry record sales includes such old favorites as Barbie and G.I. Joe (lower right), along with robots and new versions of stuffed animals. The neon train is among the decorations at the F.A.O. Schwarz toy store.

PHOTO: T. MICHAEL KEZA

PHOTO: T. MICHAEL KEZA/KEN TOUCHTON

It had been a hectic 10 years for Donald S. Kingsborough. For much of the time, he had been an entrepreneur, starting, running and eventually selling two businesses. At other times, he had been a top executive at Atari, one of the most volatile corporations on the modern business scene.

He went to Hawaii last winter to vacation and ponder his next move. He wanted to acquire another business of his own, but he wasn't sure what it should be.

The answer came when Kingsborough returned a telephone call that came while he was on a beach one morning. It was from Neil Simmons, executive vice president of Alchemy II, a Northridge, Calif., firm that specialized in large-scale animated projects for theme parks and stores.

Alchemy, Simmons said, had come up with a concept for entering the toy market and needed someone with Don Kingsborough's technical and marketing background to supervise development. When Kingsborough went home to California, he met with Alchemy executives.

"The second I saw the technology, I knew it would be a revolution for the toy industry," Kingsborough recalls. "There have been only a few toys that represented technology breakthroughs, and those have been more in the science-project area than in consumer products with broad based appeal."

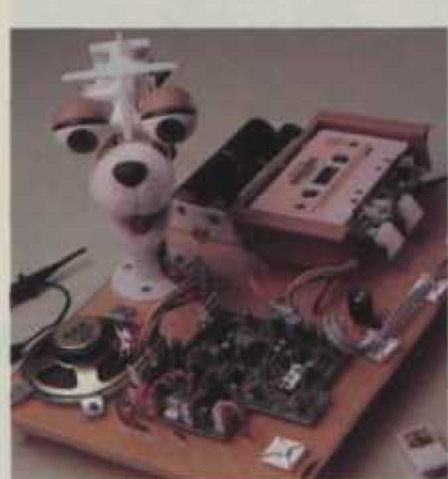
Focal point of the revolution: "Teddy Ruxpin," a diminutive figure with traditional toy-bear outsides and microprocessor insides based on a patented process called "Animagic." Teddy Ruxpin is described as "the world's first animated story-telling toy." The bear's mouth, nose and eyes move in synchronization with a voice from an audio cassette in the interior mechanism. A variety of stories and songs are available on the tapes, and children can read and sing along.

Once sold on the idea, Kingsborough was able to raise more than $15 million in venture capital based on his track record as an entrepreneur. He bought the technology from Alchemy and launched a company, Worlds of Wonder (its logo: WOW). With the help of a newly recruited team, he condensed the engineering and start-up phase for the

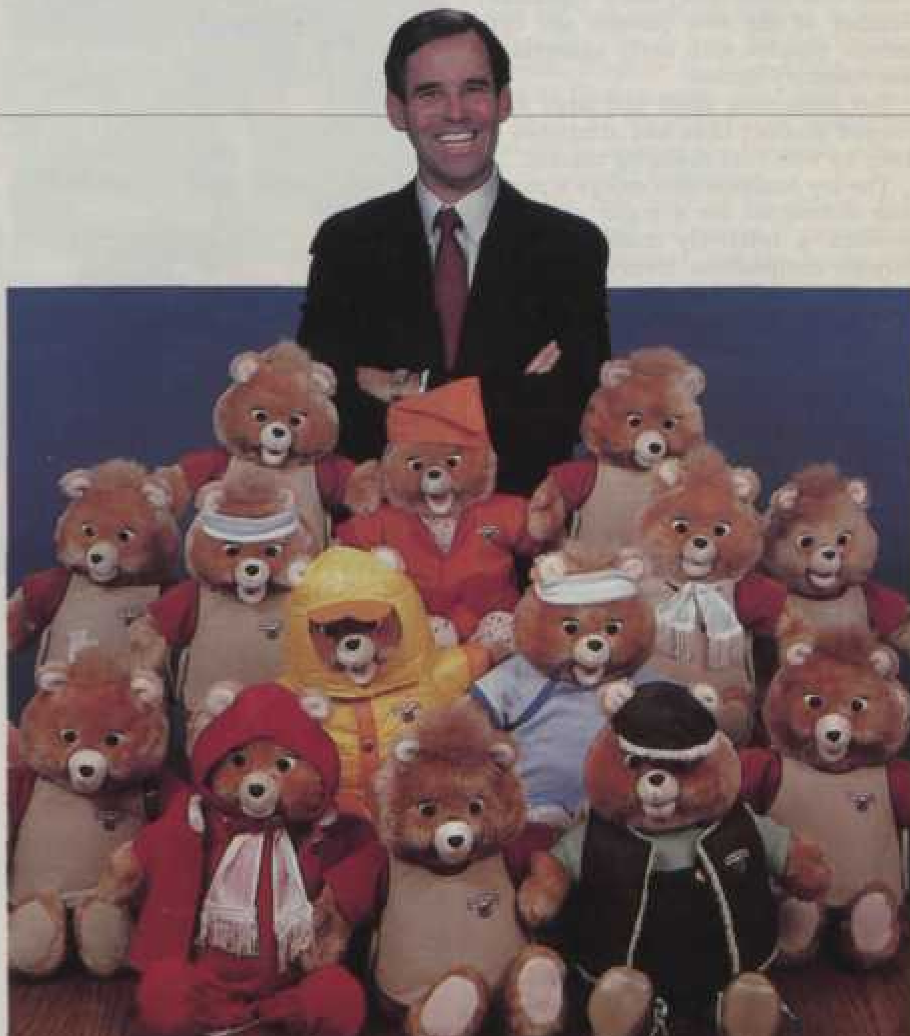
Penny Gill is a New York free-lance writer with much experience covering the toy industry.

A fertile industry for people who start small but hope to grow big has emerged from the doldrums thanks to intriguing combinations of the old and the new.

Donald Kingsborough, whose new company makes Teddy Ruxpin and the high tech circuitry that controls the story-telling bear.



PHOTOS: RICK BROWNE—PICTURE GROUP



toy into two months. Sales took off immediately, and production was quickly sold out for the year.

The ability of the entrepreneurs of Alchemy II and World of Wonder to produce a smash hit by combining high tech with one of the most traditional of all toys—the teddy bear—typifies what is happening in the toy industry.

The industry generally has reached a similar accommodation between high tech and tradition, after undergoing a rough period in search of an answer to the question of which was the wave of the future.

A few years ago, the high tech era appeared to have taken over the toy industry for good. Sales of home video and other electronic games were soaring. Companies invested heavily in research and development to bring new offerings to market in the face of stiff competition. The heavy development and production costs involved in producing electronic products posed serious challenges for many companies, particularly the smaller ones that dominate the industry.

(Though the industry is often thought of in terms of big companies like Mattel, Hasbro and Coleco, fewer than 3 percent of the member companies of the Toy Manufacturers of America have annual sales over $150 million. Sales of more than 80 percent are under $20 million, and sales of 60 percent are under $5 million. Nearly 30 percent are under $1 million.)

But the boom in electronic toys and home video games ran down not long after it began. Sales plunged from more than $2.5 billion in 1982 to just over $1 billion last year, and more than half of the latter figure represented additional software for previously sold products.

Companies that had invested tremendous amounts of money, time and talent in electronics were soon seeking ways to reestablish traditional businesses—or to stay in business at all. Companies that had not joined the electronics boom had seen sales fall off in the face of competition from high tech products, and they faced the challenge of regaining their markets.

Despite the uncertainties in the wake of the electronics boom, the industry had strong demographic trends working for it. The birth rate had started to rise—a trend that is continuing. By 1990, the number of children in the age 9 and under bracket is expected to be

COVER STORY

The Joy In Toymaking

The "Rainbow Brite" collection of soft dolls, developed jointly by Hallmark Cards, Inc., and Mattel Toys, is representative of the emphasis manufacturers are putting on broad lines of toys involving multiple purchases rather than single items.

PHOTO: MATTEL TOYS

close to 40 million, a 12 percent increase over 1983.

Another demographic factor that cheers the industry is the first-child status of more than 40 percent of new arrivals. Parents tend to spend more money on first children than they do on those who come later, and a significant number of the new parents are two-income couples with hefty amounts of discretionary income.

Toy companies small and large have revised product lines and strategies to keep up with that changing market.

The toy business also enjoys a particular distinction for a major consumer product—a relatively small degree of foreign competition. Henry Orenstein, a veteran industry analyst, says that in contrast to "the overall industrial situation in the United States, with at least half of all industries facing stiff competition from overseas, the toy business is really free from that threat. While U.S. toy companies do import a significant portion of their product from overseas operations, those foreign companies are subcontractors, not competitors."

With demographics and the absence of major foreign competition in its favor, the industry has been able to get back on track in a big way.

Manufacturers' shipments plateaued at $7.5 billion in 1983, as the demand for video and other electronic games eased. But they soared to nearly $9 billion last year, as recovery took hold. The total this year could go over $10 billion—less than $1 billion of it from the electronic game segment.

Numerous combinations of something old and something new have enabled the industry to avoid the blues. New does not necessarily imply high tech.

Consider, for example, the story of Xavier Roberts, an independent young entrepreneur in the northwest Georgia hills, who made toy industry history. He was turning out cloth dolls he called "Little People" and selling them at craft shows, where Susanne Schlaifer bought one. She and her husband, Roger, a partner in an Atlanta advertising agency, were taken with the unusual doll.

Result: Cabbage Patch Kids dolls, each with its own appearance and adoption papers, which were introduced nationally by Coleco in 1983.

Sales totaled $65 million in 1983, and consumers staged fights and near-riots in many stores where supplies met only a small fraction of the demand. Last year sales soared to $540 million. Coleco expects the dollar volume to be even higher this year.

On a lesser scale, another example of the toy industry's new emphasis on more traditional types of products involves the intrepid G.I. Joe.

Hasbro, Inc., had given him an honorable discharge after 14 years of highly successful service—he was retired amidst the antiwar sentiment of the late 1970s.

With the nation undergoing a marked conservative shift that included restoration of strong popular support for the military, Hasbro recalled G.I. Joe to active duty in 1982. He brought in $52 million that year and $135 million last year. A modern touch has changed his character somewhat. No longer a soldier fighting unidentified enemies in unnamed wars, G.I. Joe today fights "the forces of evil" in the form of terrorist-like characters.

The introduction of other types of small, doll-like figures—with specific names, characters and missions—has been a major factor in the toy industry's overall recovery.

Tonka Toys, which is headquartered in Spring Park, Minn., had been known for many years as a solid maker of solid, durable steel trucks. But it came up last year with one of the hottest-selling items in the toy market. Its Go-Bots are toy robots in one configuration and modernistic vehicles in another. They pushed Tonka's sales up 58 percent.

Not only was the Cabbage Patch Kids doll a runaway hit, it also generated a support industry. The privately held Panosh Group, of Cherry Hill, N.J., which had been concentrating on giftware, saw an opportunity to enter the toy market via the Cabbage Patch route and obtained a license to make Cabbage Patch Kids as small figures with movable parts. Spurred largely by sales of the new products, Panosh revenues have jumped from $60 million in 1984 to an expected $85 million in 1985.

Mattel, Inc., one of the big hitters of the industry, was also hurt in the fall-off in electronic games and toys in 1982 and also adopted a traditional/modern strategy for a strong comeback. The company has updated the looks and lifestyle of its longtime best-seller doll, Barbie, keeping it the largest selling line of fashion dolls in the world. Barbie, home oriented for many years after her introduction in 1959, now has executive-style outfits, is interested in fitness and drives a Corvette.

The current boom has not been limited to the larger firms in the industry. Selchow & Righter, of Bay Shore, N.Y., is 118 years old—a relatively small com-

Stuffed-animal toys, long a part of the play world, are taking on a new look in lines like Hasbro's "My Little Pony."

pany with a line that has included Parcheesi and Scrabble games. It scored a smash hit in 1983 with the introduction of Trivial Pursuit, a game in which contestants test their knowledge on a variety of subjects. In the first year, 22 million sets were sold at retail prices ranging to $40.

In addition to the basic game, sets aimed at particular categories of customers and sets dealing with specialized areas of knowledge are available.

The Little Tikes Company of Hudson, Ohio, is another small firm that has grown rapidly. Launched by Thomas Murdough in 1970, the company established itself with a line of molded-plastic play furniture and riding toys. On the basis of its toys' quality and durability, the company enjoyed a 40 percent annual growth without any promotion, Murdough reports.

In 1982 the firm decided to expand its business with a preschool line, consisting of blocks, shape sorters and pull toys of the same molded plastic construction. That made its already strong sales and profits growth even stronger.

PHOTO: T. MICHAEL KEZA

In 1984, Rubbermaid, Inc., acquired the company.

One common aspect of many of today's most successful toys is their marketing as lines, or collections, rather than individual items. In the past, says Mattel President Glenn Hastings, most toys were offered as items. "When consumers bought one, they didn't need another," he says, "so from a purely financial point of view, most toys failed" in terms of reaching the full market potential. But with lines of toys, Hastings explains, children can keep expanding the uses of a toy by adding more products from the line.

Along with the line strategy, companies big and small are looking to diversification as a key to continuing growth. Stephen D. Hassenfeld, chairman of Hasbro, says, "Our goal is never to put all our eggs in one basket but instead to balance the business with a lot of different categories."

In the first year of his return, G.I. Joe accounted for nearly 40 percent of Hasbro's revenues, but the figure was only 15 percent last year. A major factor was Hasbro's massive growth via the acquisition of Milton Bradley Company and its Playskool subsidiary. Hasbro, which had sales of $100 million in 1980, expects to do more than $1 billion this year.

Does the Hasbro growth signal an industry trend, with consolidations and mergers eventually concentrating most of the business in the hands of a few

Therapy Through Empathy

Patrick Geil's mother and a nurse use a teddy bear with a leg cast to explain the treatment he is undergoing for his soccer injury.

When 7-year-old Patrick Geil, of Santa Monica, Calif., injured his knee playing soccer, he had a friend to help him through the healing process. Patrick's friend had a knee injury, too.

The friend, a stuffed honey bear, is one of a line of Exceptional Animals used to help temporarily and permanently disabled children understand the nature and treatment of their medical conditions.

Before Patrick's cast was applied, a nurse showed him exactly what would happen by applying a miniature cast to the bear. Before Patrick's cast was removed, he watched the bear's cast being removed. And the bear even went home with him when their knees were pronounced healed.

Exceptional Animals, says Pat Azarnoff, executive director of Pediatric Projects, Inc., "help kids understand what's happening to them so they're not frantic and paralyzed, but cooperative."

Pediatric Projects is a nonprofit corporation funded through donations, grants, money raised by a support

PHOTO: PEDIATRIC PRODUCTS

group and proceeds from sales. In addition to the bears, who come with arm and leg casts, white canes, neck braces, wheelchairs and various appliances, it sells books and other medically oriented toys.

Besides educating children about their disabilities, the toys help parents. By watching their children interact with the disabled bears, the parents can better understand what the youngsters are thinking. Azarnoff, who has a background in special education and child development, has worked in pediatric programs for 20 years.

The toys are developed by Pediatric Projects with the help of therapists, physicians and nurses. Manufactured by small outside companies, the toys go through an advisory board's stringent safety tests before they are marketed.

An occupational therapist makes the bears' casts the same way she does for her human patients.

Says Azarnoff, "The casts are removable because children need to know there is an end to wearing a cast."

The bears, which sell for $20 to $26, and Pediatric Projects' other items are sold mostly through direct mail to individuals and hospitals worldwide. The corporation also helps establish play programs in hospitals.

For a catalog and more information, write to Pediatric Projects Incorporated, P.O. Box 1880, Santa Monica, Calif., 90406, or call (213) 828-8963.

—*Nancy L. Croft*

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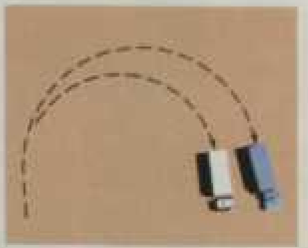

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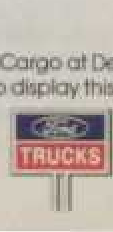

Circle No. 97 on Reader Service Card.

Stephen G. Shank, president of Tonka Toys, displays products the 40-year-old company has added to its basic line, the familiar steel trucks.

PHOTO: D.W. WOODDELL

companies? Douglas Thomson, president of the Toy Manufacturers of America, points out the question is not a new one.

"At the end of the 1970s," he recalls, "there was great concern over a centralization of power, but then it was CBS and General Mills that were thought to be taking over—CBS with its acquisition of Gabriel Industries and Ideal Toys, and General Mills with Kenner and Parker Brothers." Now, he notes, General Mills has spun off its toy companies, and CBS has announced plans to sell its toymaking subsidiaries.

Another point, Thomson adds, is that the very companies that are now the largest in the industry were themselves in trouble just a few years ago.

Their comeback, he says, should "spell hope for other people" trying to succeed in the business.

And Donald Kingsborough of Worlds of Wonder, who has had experience in founding his own companies and in working for a major corporation, believes that the toy industry can be a particularly fertile field for entrepreneurs who must start small but want to grow big.

The industry is segmented by a wide variety of products and consumers, he points out, and there are a lot of small markets an entrepreneur can go after. Capital requirements can be relatively low, with most production carried out on a contract basis through other companies, Kingsborough adds.

What is important, he explains, is management ability, particularly in finance, and marketing know-how. An individual needs entrepreneurial skills from the standpoint of conceiving and developing ideas, Kingsborough says, and a sense of bureaucracy from the standpoint of organization.

For those reasons, he says, the type of experience he had in a larger business can be an asset to an individual starting a small business.

While some entrepreneurs might be able to get started by doing everything themselves, he says, "most companies go through the stage where they start to need a bureaucracy, in the sense of a division of labor and responsibility, to be organized to meet the growing challenges."

Kingsborough, who is 38, started DK Marketing in 1976 as a manufacturers' representative for consumer electronics and computer-related products. The business had ties with the Atari Company, as a distributor for that firm, as it began to grow at a rate seldom seen in the business world.

In 1978 Kingsborough became Atari's executive vice president in charge of sales and marketing. He recalls: "When I joined Atari, sales were less than $100 million." At the end of 1979, he went back to DK Marketing, but he kept a link with Atari as a consultant to its chairman. That was the heyday of the video game, and when he severed the link with Atari in 1981, giving all of his time to his own business, Atari's sales were over $1 billion, he notes.

In 1982 Kingsborough added to his business interests, launching the SKU Company as a software distributor. But he came back to Atari in 1983 as president, for a transition period. The electronic game boom was over by then, and parent Warner Communications was selling off Atari because of its losses.

Kingsborough, who had sold his own companies, then headed for Hawaii to ponder his future and get the telephone call about an animated toy bear.

His new Worlds of Wonder Company, he says, is "looking at 20 to 30 areas of technology that are easily transferrable to consumer products."

Teddy Ruxpin is operated by a microprocessor, Kingsborough points out, but "it is definitely being marketed as a toy, not an electronics product."

Kingsborough says the industry must remember, as it enters the new era of traditional toys combined with high tech, that "our mandate is not technology for technology's sake, but technology for the kids' sake." NB

To order reprints of these articles, see page 89.

Wholesale Expansion

Strong retail chains have made wholesalers change their ways.

Toy retailing and wholesaling, like toy manufacturing, are undergoing wholesale change as business people adapt to new challenges.

The growth of strong retail chains with enough purchasing power to deal directly with manufacturers posed a problem for many wholesalers, who saw themselves threatened with obsolescence.

Some wholesalers adopted a join-'em-if-you-can't-lick-'em strategy. Greenman Brothers, of Farmingdale, N.Y., had primarily been a wholesaler for more than 50 years, serving the small specialty stores that were the backbone of toy retailing.

But the retail side of the toy business changed drastically with the emergence of the big chains, which took a supermarket approach to buying and selling.

Greenman Brothers decided to move much more aggressively into retailing. It had owned six retail stores in its metropolitan New York wholesale area since 1972. Its new strategy called for a broad expansion into retail operations.

Ironically, it is using the same leverage that the big chains used to bypass the wholesalers. Bernard Greenman, the company's chairman and son of its founder, says, "Our wholesaling business certainly gives us a lot of buying power." Wholesaling, he adds, has another advantage for the retail end: "A lot of knowledge of what will sell."

In 1982 Greenman Brothers bought Playland Toy Stores, an 80-unit chain based in Valdosta, Ga., and last August acquired Circus World Toy Stores, a 189-unit chain, from Rite Aid Corporation.

The acquisitions more than doubled Greenman Brothers' earnings—from \$3.5 million on sales of \$117.3 million for fiscal 1984 to more than \$7 million on \$172.9 million in fiscal 1985. The drastically expanded retail operations also put Greenman Brothers in the company of the larger operators in the retail toy industry.

They include Toys 'R' Us, with 241 freestanding stores and the biggest volume in the business, and Kay-Bee Toys, with the most units—585. Kay-Bee's shopping-mall stores are smaller than the Toys 'R' Us units and do a lower total volume. Other major retailers are Child World (104 units), Lionel Leisure (52 units) and the upscale F.A.O. Schwarz (22 units).

The wholesale/retail toy business headed by Bernard Greenman has spanned the 50 years from the debut of Monopoly to the age of robots.

PHOTO: T. MICHAEL KEZA

Kay-Bee represents the most direct competition for the Greenman retail operations because the Playland and Circus World stores are also in shopping malls.

Bernard Greenman says that he plans to discontinue the company's six New York area retail outlets. They are freestanding units, and he does not plan to go up against the giants in that category, like Toys 'R' Us. He is still nurturing his wholesale activities.

"In order to compete with the freestanding chains," Greenman says, "we would have had to put too many of our resources into the operation, which would have detracted from our ongoing wholesale business."

At the same time, Greenman sees no bar to doing business in the malls where Kay-Bee has stores. "Although Kay-Bee is a larger chain," he says, "we don't really feel it has to be a competitive situation. After all, most malls contain more than one clothing shop or card shop. So why not more than one toy store?"

Whatever strategy the smaller chains pursue, it will be a long time before they catch up with Toys 'R' Us, which is gaining an increasingly larger share of the market. The retail giant earned \$111.4 million on sales of \$1.7 billion in its last fiscal year. Revenues were up nearly 30 percent from the previous year. Toys 'R' Us reports that sales of the 18,000 types of toys it stocks represent 14 percent of all retail toy sales. NB

—Penny Gill

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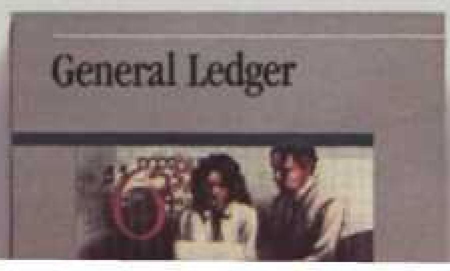

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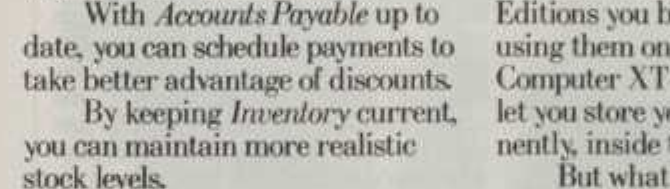

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Marketing

The champion seller of Girl Scout cookies can provide tips to her elders.

By Nancy L. Croft

In a few weeks it will be that time again. Time for New York girls in green uniforms to begin their yearly ritual of knocking on doors to peddle Do-Si-Does, Thin Mints and four other kinds of Girl Scout cookies.

Markita Andrews, 14, will be a top salesgirl, but she won't be knocking on doors. In between newspaper and magazine interviews and appearances on talk shows, she will be calling her best customers to see if they will increase their orders this year.

Andrews learned early that knocking on doors wasn't worth her time. At age 6 when she and her mother moved to New York after a marital separation, she joined a Brownie troop to meet other girls her age. It was during the Girl Scout cookie sales period.

She started out by knocking on doors in the Lincoln Towers apartment complex where she lives with her mother, aunt and uncle. "One of the doormen said, 'If I get any complaints about you knocking on doors, I'm going to bring you down to the lobby,'" Andrews recalls. Sure enough, there was a complaint, and she was demoted to the lobby. But it turned out to be a boon. "It just happened to be when people were coming home from the office," she says. "I sold to 45 people that afternoon." She adopted this strategy and has used it ever since.

Andrews likes to find her customers all in one place. "I sell in lobbies at a lot of companies, and I try to find new companies every year," she says. Dubbed as the top Girl Scout cookie seller of all time, Andrews last year sold 8,006 boxes—$16,000—not bad for a little over three weeks of work. And the girl, who is described by her aunt, Meredith McSherry, as "shy to a certain extent," has sold well over 30,000 boxes of cookies in the past eight years, with sales increasing around 30 percent each year.

By comparison, in 1984, Girl Scouts sold 130,250,000 boxes of cookies, mostly in the United States. Excluding volunteer adults who sold cookies, that averages out to somewhat less than 100 boxes of cookies per Girl Scout.

Some of the big guys have taken notice of Markita Andrews' astonishing sales figures. Companies like International Business Machines Corporation, Lotus Development Corporation and Pacific Telephone have flown her to conventions to speak about her sales techniques.

IBM and Pacific Telephone have flown Markita Andrews to their conventions to let them in on her selling secrets. "There are no secrets," she says. "Just be polite."

PHOTO: T. MICHAEL KEZA

In 1982, Walt Disney Productions made a 12-minute sales motivation film that featured Andrews. Businesses throughout the country have purchased the film to educate their sales forces. And Andrews, with the help of writer Cheryl Merser, has written a book for Random House, detailing her basic steps of successful selling. The book is aimed at both the youth market and salespeople and is scheduled for release in March.

The first step in selling, she says, is setting short- and long-term goals. Andrews tries to take 100 orders a day after school during the three-week selling period. "If I don't reach my goal of 100 on one day, I'll work harder the next day, and I'll try to think of new places to go."

Andrews also stresses the importance of keeping good records. Sometimes, if customers say they have paid for an order and Andrews has doubts, she checks her spiral notebook of all the people she has sold to, what they bought and what order form they are on.

Wearing her uniform helps attract attention when Andrews is selling in an office. "People will see me and wonder, 'Who's going to be wearing a uniform like that? What is this girl doing?'" she says. "Then they'll think, 'It looks like she's trying to sell something. I wonder what she's selling?' So they'll come up to me part way, and I'll meet them the other part of the way and try to sell them some cookies."

Perhaps the real secret of her success is charm. "A lot of people have bought from Markita just because she's Markita," says her aunt. "People like her and they'll buy one box." Andrews says, "I try to be very kind to people because then they'll tell other people."

Last year Andrews, an honorary member of the National Association of Professional Saleswomen, charmed members of the Million Dollar Roundtable into buying 5,000 boxes of cookies when she was a featured guest at their convention at Radio City Music Hall. Andrews has also appeared twice on "Late Night With David Letterman" and "Good Morning America."

But Andrews does not rest on her laurels—she wants to go to college to polish her sales techniques. Yet for now, with only a couple of years left in Girl Scouts, she wants to reach her goal of selling 40,000 boxes of cookies. This should not be an impossible task for Andrews because she's motivated by a strong belief in her product and organization. "Girl Scouts are a great cause. I sell cookies to help them out—helping kids who don't have enough money to go to camp and helping buy office supplies." Andrews' troop receives 25 cents for every box the troop sells. With the money, she says, "we go to dude ranches in upstate New York."

However, selling does have its ups and downs. When people don't want to buy any cookies, says Andrews, "I will try to convince them what a good cause Girl Scouts are." But if they still refuse to buy and don't wish to make a contribution, Andrews politely thanks them. "I know there are people who don't want to buy, but there are a lot of people who do, and I look forward to the people who do want to buy." NB

MANAGING YOUR BUSINESS

Skirting Sexism

"Don't be upset by the business letter that begins 'Dear Madam,' fellas. It means you, too."

By Pearl G. Aldrich

ILLUSTRATIONS: WILLIAM COULTER

But 'the manager ... he' is correct grammar," the woman insisted. Several classmates had suggested that she should have used "the manager ... he or she" in her presentation. "You're a manager, aren't you?" challenged one man. " 'The manager ... he' isn't accurate."

Both were right. English-speaking people have been taught for 150 years that "the manager .... he" is correct grammar, but in the business and professional world today, "the manager ... he" is no longer accurate, any more than "the teacher ... she."

Language reflects our attitudes. As we change our attitudes, we change our language. But change never comes smoothly either in life or in language. This discussion among managers attending a workshop to improve their writing abilities illustrates the confused state of linguistic affairs two decades after efforts to eliminate sexism in language began as part of the women's movement.

Though nonsexist language has not yet come of age, important changes have entered the mainstream of day-to-day business writing and speaking.

Women executives still receive invitations to professional meetings containing assurances that shopping trips will be planned for their wives, but in the main, we see and hear *spouses* (sometimes it is *mate*—but not often; it is too suggestive of Tarzan swinging from tree to tree with Jane on his hip).

Generally, *supervisor* has replaced *foreman*. *Workmen's compensation* has become *workers' compensation*, *messenger* has replaced *errand boy*, *server* is slowly overtaking *waiter* and *waitress*, and *my girl* (meaning my secretary or my assistant) is seldom heard.

Business people, for the plural, is replacing reliance solely on *businessmen*, while *businessman* and *businesswoman* are being used when appropriate. As more women enter sales forces, options for *salesman* already in the language are being used more frequently: *sales rep, sales associate, seller*.

Many people dislike *salesperson* and *chairperson*. *Person* is used as a suffix primarily for women. A *chairman* is still a *chairman*, while a *chairperson* is a woman. In many organizations, *chair* or *head* is used.

Ms., commonly used now in both speech and correspondence, has entered English textbooks. So have women's names as illustrations for such rules as use of degrees after proper names (Alice Jones, M.D.). And a few recently published reference books for business writers include sections on nonsexist language.

Work hours and *work force* are still struggling to replace *man-hours* and *manpower* in costing jobs and writing proposals. Substitutes for *man* in such expressions as *man-made* (artificial), a *man-sized job* (a big job) and *the common man* (the average person) are hard to find.

However, the most pervasive problem, and the hardest to solve, is the pronoun problem.

Using the single number masculine, *he* and *his*, as the inclusive pronoun when some of the people meant are women is a lesson in traditional grammar that we learn early and thoroughly. The double pronoun, *he/she, his/her*, is now used fairly generally to achieve nonsexist language, but many find it awkward.

And what about this type of awkwardness? Said the regional manager as he distributed a questionnaire at a sales meeting: "I'm asking every man and woman to answer all questions as accurately as he can."

Lindsy Van Gelder made the suggestion in *Ms.* magazine that the simplest way around the problem was to give "he" a rest and use "she" as the general pronoun. "Instead of having to ponder over the intricacies of 'Congressman' versus 'Representative,' we can simplify by calling them all 'Congresswoman.' And don't be upset by the business letter that begins 'Dear Madam,' fellas. It means you, too."

Well, we need not go that far to solve the pronoun problem. There are several ways to get around it without being absurd or awkward, or wrenching the language into impossible constructions.

Eliminate the pronoun. A woman consultant recently received a contract from a corporation in which she was referred to as *he* and *his* throughout, despite being identified in the first paragraph by the obviously female name of her firm. She says, "Of course it's boilerplate and run off automatically even though the corporation's vendors are male, female and groups of both, but it makes me uncomfortable, and it certainly doesn't do the corporation's image any good."

Eliminating *his* in the following excerpt will cover all vendors without damaging the contract's intent or legality: "The independent contractor shall furnish *his* professional consulting ser-

Gender Menders

If you are sensitive to having your gender confused and sign office documents with your initials (L.J. Thompson) or have a unisex name (Loren Hadley), protect your nerves by making it easy for your reader.

A man can substitute his masculine first or middle name for one of the initials and, if he wants to continue signing the initials, have his name typed on the line under his signature.

A woman with a unisex name can have the identification typed under her signature, while a man might want to have a masculine middle name typed under his signature.

Pearl G. Aldrich, an Alexandria, Va., writing consultant, conducts writing workshops for executives.

vices and advice as specified by purchase orders."

In another example, from an investment company letter, eliminating *himself* changes a sexist sentence to nonsexist quickly and easily without changing the meaning: "The investor has in fact reaped more than a dollar of deductions for each dollar invested, often moving *himself* to a lower tax bracket."

Make the sentence plural. The sentence from the investment letter also could have been made plural: "Investors have in fact reaped more than a dollar of deductions for each dollar invested, often moving *themselves* to a lower tax bracket."

The sentence, from an employes' manual, "Each employe completes his time sheet at the end of his shift," would have been better in the plural: "All employes complete their time sheets at the end of their shifts."

Address the reader directly. The employes' manual would have been even better if the writer had said: "Complete your time sheet at the end of your shift."

And the regional sales manager quoted above could have avoided trouble by saying, "I'm asking you to answer all questions as accurately as you can."

The second-hardest problem is deciding on terms of address.

General use of *Ms.* has created awareness of other baffling situations. What can you do when you don't know if your addressee is a man, woman or computer, and the old reliable, Dear Sir, is obsolete? What term of address can you use in your reply when the original correspondence contains initials rather than a first name before a last name, a unisex name such as Loren Hadley, Blair Rogers or Page Paxton, or no name at all?

For the first two, if you want to be completely accurate, call the organization and ask the telephone operator or receptionist if Loren Hadley or L.J. Thompson is a man or a woman. If that is impossible or impractical, here are five solutions to choose from.

1. Use the complete name as provided: Dear Loren Hadley or L.J. Thompson.

2. Cover both bases: Dear Ms. or Mr. Thompson.

3. Use his or her title and last name: Dear Vice President Hadley or Dear Purchasing Agent Thompson.

4. Set up your letter in the form of a memo:

To: L.J. Thompson
From: Lindley Mercer

5. Ignore tradition, eliminate the salutation and start the first paragraph of your letter.

If your correspondence contains no name at all, chances are you are talking to a computer. Even if the computer is user friendly, it is the reference numbers or code that it responds to. Write the company address and the reference. Then start the first paragraph of your letter.

If the hand of tradition is heavy upon you and eliminating the salutation makes you uncomfortable, address the whole company (Dear Massachusetts General Insurance Company), To Whom It May Concern or Dear Friends.

Deciding terms of address in writing is infinitely easier than deciding how to speak to people when you can see their gender but don't know their rank. Men grow up learning how to operate in a male hierarchical system and usually can determine with reasonable accuracy which man to address formally and which informally.

Women usually address all men in business suits as Mr., but they have no easier time of it than men in deciding how to address a woman in a professional setting.

The automatic, trivializing use of a woman's first name is on its way out, but incidents like this still abound:

Bill's attempts to interest XYZ Company in his products had finally paid off.

He was invited to make a presentation and was offered the use of a conference room in a letter signed John Liveridge, assistant to the president.

When Bill signaled that he was set up, a woman and a man entered the room.

The woman said to Bill, "I'm Virginia Hancock, and this is John Liveridge, my . . ."

Bill enthusiastically broke in, drowning her last word, "I'm delighted to meet you, Mr. Liveridge, and you, too, Ginny."

Ms. Hancock owned the company, Mr. Liveridge was her assistant, and Bill lost a customer.

One rule fits all: Use Ms. until you are told something different. Do not address women by their first names unless you are on well-established, friendly terms or you have clear-cut signals that it is O.K.

And don't assume a Ph.D. or M.D. is a man.

A sexually inclusive language is slowly evolving, and we can achieve it by continuing to work on problem areas. NB

MANAGING YOUR BUSINESS

Innovators

Managing employes in a new age often means challenging accepted styles.

By Sharon Nelton

Profiting Holistically


ILLUSTRATION: CAMERON GERLACH

Increasingly, says Fred Pryor, managers are adopting a more "holistic" approach to management. And Pryor is in a position to know. He is president of Pryor Resources, Inc., the Shawnee Mission, Kans., management training firm that conducts 2,000 Fred Pryor Seminars across the country every year.

Among the characteristics of such management is a real concern for the individuals in a company. A manager doesn't have to endorse everything an employe does or do everything that employe wants him to do. But he or she might adopt Pryor's version of PERKS.

—**P** stands for *participation*, which means including employes in the decisions that are being made about the values, goals and direction of the company and providing a means for employes to express frustrations and air problems.

—**E** stands for having positive *expectations* about employes. If you expect people to succeed, they are more likely to do so.

—**R** means giving employes *recognition*. Even something as small as telling people you like what they are wearing can show them you are interested in them and help give them a sense of pride.

—**K** is for empowering people with *know-how*. "Teach them. Communicate with them. Help them learn. Help them grow," says Pryor. Even if a person cannot progress beyond the job he is in, he can learn more about that job or about the company in which he works.

—**S** means employe *satisfaction*. A manager can keep asking, "How can we increase satisfaction?" For example, let people set their own goals about performance levels. When they achieve objectives they have set for themselves, they feel good about it, says Pryor.

Managers are turning to holistic concepts in the workplace "not out of benevolence but out of necessity," says Pryor.

"It's more profitable when you treat people like people," he contends, "because it's the dedication of people, not the intimidation of them, that gets things done."

Isn't this just another form of manipulation?

It depends on who is doing it and what their motives are, Pryor answers. Anybody can take something good and make something bad out of it, he says.

"You can manipulate people for a period of time, but they begin to sense it early on and later they confirm it," warns Pryor.

If you manipulate employes, says Pryor, they learn to counter-manipulate. "It's only a matter of time before you pay the price."

Going Against The Grain

Being a maverick has stood Frederick L. Maltby in good stead. When he couldn't convince bosses to get into the field of radio-frequency level controls, Maltby, trained in engineering and physics, launched his own consulting company in his basement in 1957. It has since become Drexelbrook Engineering Company in Horsham, Pa., a $20-million-a-year manufacturer of level control instruments with 250 employes.

But to make it so, Maltby has either been ahead of trends or bucking them. He has had flex-time since Drexelbrook started. And when it comes to traditional ways of doing things, he says: "The conventional way is only one of the options and probably not the right one. You ask, 'What are the other ways of accomplishing what I want?' "

Other Maltbyisms:

On profit: "If somebody says the purpose of a company is to make money, that's wrong. That *isn't* the purpose. That is a necessary side issue. The real reason for a business is to provide a service. And if it's going to keep growing, it has to make a profit to support its growth."

On responsibility: "In a conventional structure, you draw lines—'Your responsibility starts here and it stops there.' At Drexelbrook, we don't say where your responsibility stops. We just say where it starts. How far it goes is up to you."

In another company, Maltby explains, it might be the production manager's job to have only what the sales manager calls for. If the sales manager is wrong, the whole system breaks down. But at Drexelbrook, the production manager's job is "to have on the shelves what we actually need."

This can mean his responsibility overlaps the sales director's in determining what is needed. Because it is not unusual for responsibilities to overlap in Maltby's company, new employes have to unlearn a lot of old ways. But, he says, they find ways to reach company goals working together.

On firing: "The people that we've

terminated are still good friends. I work on the assumption that there is a right job for everybody. And if they don't fit here, we're not doing them any favor keeping them. A supervisor will say, 'Henry, you have abilities we're not able to use. Now there is a place that will fit you better. We'd like to have you go out and find it and we'll try to keep you on here until you do.' Sometimes that's been known to take six or seven months."

Drexelbrook has a no-layoff policy. To keep its work force stable, it subcontracts work during busy times instead of adding employes it will have to let go later. When the economy is slow, subcontracting is cut back and employes are shifted from one activity to another as needed. If a supervisor failed to terminate someone who didn't "fit" when the economy was up, Maltby tells him, "You can't get rid of him now. He can't get another job. Now you're stuck with him. You're going to have to keep him until things pick up."

On just-in-time inventory: People are "out of their skulls" to import zero inventory or just-in-time concepts from Japan. "That won't work here," asserts Maltby, whose company has a wholly owned subsidiary, Nihon Drexelbrook Company, Ltd., in Japan. You can get away with just-in-time inventories in Japan, where a strike usually lasts only a few hours—anything more than a day would be viewed as disloyal. But in the United States, a strike at one plant of a firm using zero inventory could shut down the whole company, says Maltby.

On doing business in Japan: "Speaking the language is a negative unless you also understand the culture."

John F. Baughman, a Drexelbrook administrator who had a major responsibility in setting up the Japanese subsidiary, concurs. "The Japanese go to such lengths to avoid saying something that you don't want to hear" that reading body language and facial expressions is crucial, says Baughman. "Half the conversation is nonverbal."

Taking time to build confidence is essential, they agree, because the Japanese tend to buy only from someone they trust. Because jobs are viewed as long-term—often lifetime—they also tend to go to work only for a company they trust.

"If you're well liked, you get nicknames," chuckles Maltby, who sports a lavish, handlebar mustache. He knew his people were making progress with the Japanese when he learned that Baughman had been dubbed "large white bear." And a five-year-old who couldn't pronounce "Maltby" substituted "Honorable Uncle Mustache," a title that stuck.

Under The Tree

If your favorite executive has already read all this year's hot business books (*Iacocca: An Autobiography*, *Re-inventing the Corporation*, and *A Passion for Excellence*), what's left for you to put under the Christmas tree? Here are some worthy choices:

—*Estée: A Success Story*, by Estée Lauder (Random House, $19.95). The driving force behind the cosmetics empire that bears her name, Lauder can tell you a thing or two about salesmanship and competing—and what it means to be an entrepreneur.

"Business marries you," says the lady whose firm's annual sales are estimated at more than $1 billion. "You sleep with it, eat with it, think about it much of your time. It is, in a very real sense, an act of love. If it isn't an act of love, it's merely work, not business."

—*Power and Influence*, by John P. Kotter (Free Press, $19.95). How to exercise leadership in an age when you can't just give orders and expect others to follow them. Harvard Business School's Kotter aims at helping people "who are trying to foster excellence, innovation, and responsiveness in their organizations, despite the many forces that promote bureaucracy, parochial politics, and destructive power struggles."

—*The Winning Performance*, by Donald K. Clifford, Jr. and Richard E. Cavanagh (Bantam, $19.95). A look at how America's high-growth midsize companies (between $25 million and $1 billion) succeed. Cavanagh is a principal in McKinsey & Company's Washington office and Clifford, a former McKinsey director in New York, is president of Threshold Management, Inc.

—*The Family in Business* (Jossey-Bass, $22.95). Paul C. Rosenblatt of the University of Minnesota and a team of co-authors explore the complexities of the family business. A few chapter titles: "Struggles Over Who Makes Decisions" and "Surviving While Working for a Relative."

—*Managing for Excellence*, by David L. Bradford and Allan R. Cohen (John Wiley & Sons, $18.95). An offering from last year, this book didn't get all the attention it deserved. Aimed at middle managers, it may be the best book around on how to develop employes.

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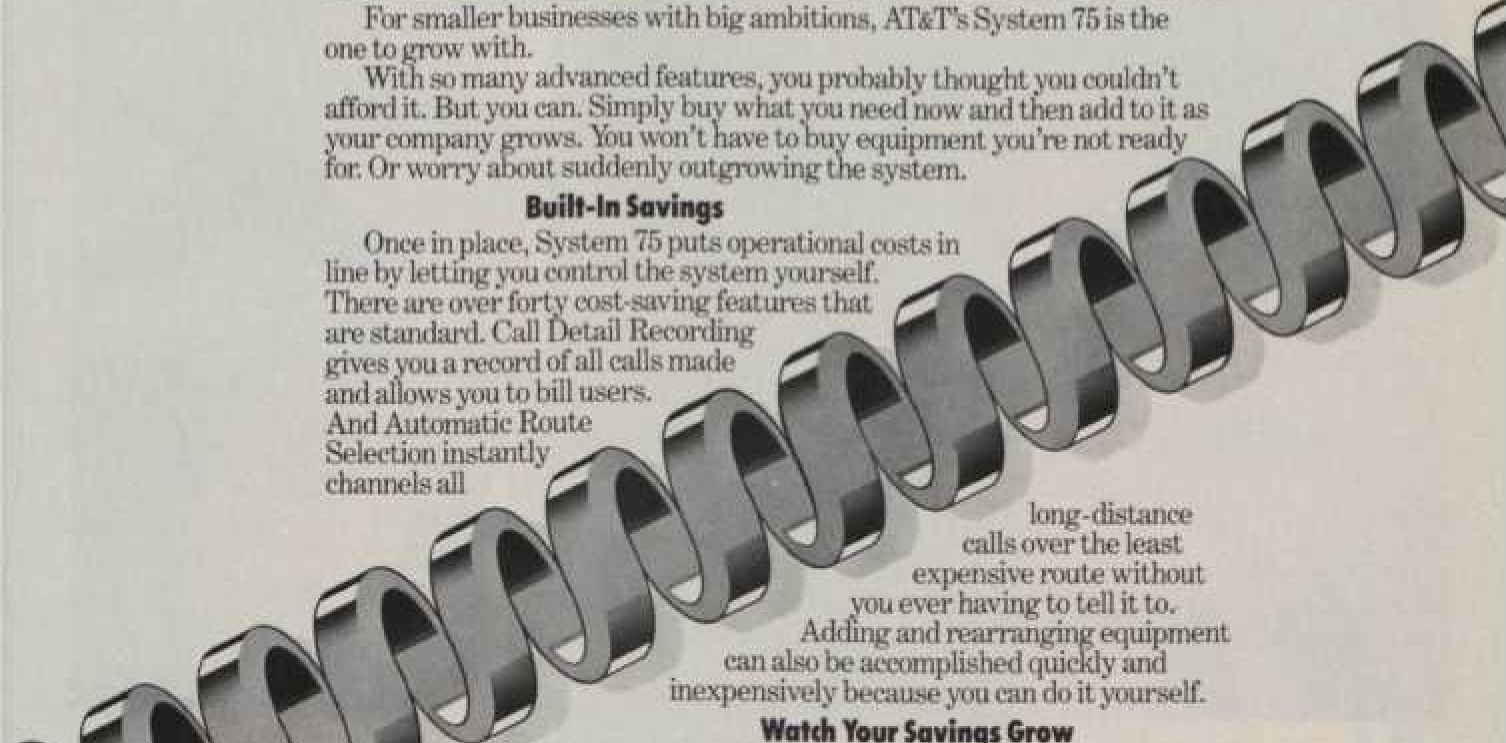

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E G Y P T

Investment Opportunity

By Ahmad El-Dersh

For thousands of years, Egypt has been a land of opportunity and accomplishment. Rising behind the Sphinx on the outskirts of Cairo are the great pyramids, lasting evidence of the skill and ingenuity of the talented and hard-working people inhabiting the Nile Delta.

On the Plains of Giza outside Cairo rise the three great pyramids of the Pharaohs that have become the symbol of Egypt and its remarkable early civilization.

Today, although Egypt still treasures and protects these mighty achievements of its past, the nation's focus is on a new triad fashioned by its energetic and visionary leaders.

These are the canons of modern-day Egypt's investment policy: Stability, Profitability and Transferability.

Recognizing that Egypt's continuation as the leader of the Arab world calls for a dynamic economic policy, the government and private sector emphasize to potential investors the nation's forward-looking policy designed to attract foreign investment.

Realizing that investors consider many factors before making a decision, Egyptians focus on the three that stand paramount: political and legislative stability; the expected return on investment; and the ability to transfer capital as well as profits out of the country.

But Egyptian leaders are not ignoring the other investment factors that play a pivotal role in the decision-making process:

- Favorable trade policies.
- Measures to increase investor confidence.
- Investment regulations.
- Suitability of infrastructure and services.
- Availability of labor and employment incentives.
- A favorable interest rate structure.

Egypt, at a strategic crossroads that links Europe, Africa and the Middle East, is not only the most populous, but also the most influential Arab nation. Egypt has exhibited remarkable stability. Evidence is the quick transition under President Hosni Mubarak.

This stability has been a prominent feature of the Egyptian scene for more than three decades. Since the bloodless overthrow of the monarchy in 1952, the succession of power in Egypt has taken place in a smooth and orderly manner. Few developing nations can claim a similar record.

Similarly, the legislative stability of the nation has been noteworthy.

Early in the republic's history the emphasis was on import substitution and a general wariness of foreign investors. Through the years the general trend in laws and regulations affecting the investment climate has been toward fewer restraints and more and more incentives for investors. Today Egypt's policy is soundly based on the free enterprise system and the fostering of the private sector.

As to economic stability, a World Bank report issued on Sept. 21, 1984, sums it up succinctly in a review of the nation's

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medium–term investment policy:

"For the past decade its [Egypt's] economic policy has encouraged the development of a vigorous private sector and a diversification of foreign economic relationships. For the same period Egypt has experienced one of the most rapid growth rates in the developing world."

While Egypt focuses on exports, it points out to potential investors the growth of the domestic market. The nation's 50 million inhabitants have experienced a rapid growth in income. In 1982 per capita income was US $690, a result of an average annual growth of 3.6 percent during the period 1970–1982. During that same period Gross Domestic Product (GDP) was growing at an 8.4 percent annual rate.

Private consumption was increasing at an average annual rate of 6.6 percent in the same period and gross domestic investment was booming along at an average rate of 15.5 percent, a performance attributed in no small part to the diversified and skilled labor force in the nation.

The lull in the world economy in the past several years had an impact on Egypt as well as on other developing nations. With its main source of foreign exchange coming from petroleum exports, remittances from overseas workers, Suez Canal tariffs and tourism receipts, Egypt was forced to tighten its belt and look to other sources of revenues.

During the period of 1977–1983, branches of foreign banks in Egypt, with a total capital of £E 40 million, transferred abroad the equivalent of £E 111 million in profits (£E = Egyptian pounds).

While maximizing growth from internal sources, Egyptian officials have long recognized the need for foreign investment to keep the momentum of growth going forward at a steady pace. Encouragement of foreign private investment has become an integral part of the strategy adopted in the current five–year plan.

From President Mubarak down, the government's direction is clear—more and more emphasis on the private sector and private investment, particularly on foreign or joint private investment.

Since its passage in 1974, Law 43 has set the basic policy for foreign investment in Egypt. As originally conceived, the policy was to bring together newly acquired Arab wealth from then–skyrocketing oil prices, Western technology and Egyptian manpower.

By mid–1977 a total of 161 projects, valued at £E 262.4 million, were in operation. An additional 158 projects, valued at £E 692 million were in various phases leading to operation. But most of the projects were not of the type that Egyptian planners had envisioned, such as major industrial projects producing durable and non–durable goods to ease the flow of imports.

Dr. Sultan Abu Ali, Minister of Economy and Foreign Trade: keeping Egypt's momentum of economic growth going forward at a steady pace.

Most of the new projects were investments in banks, investment companies, tourist projects and real estate development schemes. Foreign investors showed great interest, but also had some remarks concerning Law 43.

In response, the government amended the law in 1977 to eliminate the problems cited by foreign investors, thus making the Open Door policy enunciated by the government more fact than fiction. The amendment increased the scope of permissible activities, made possible the extension of tax holidays and granted some of the privileges of the law to projects fully owned by Egyptians.

And it widened the door for foreign investors, allowing foreign majority ownership and offering a more attractive package of incentives and guarantees. The amendment granted tax holidays for periods ranging from 5 to 15 years and a more liberal policy of repatriation of profits and capital.

Passed during the administration of Anwar Sadat and now vigorously implemented under the administration of Hosni Mubarak, the New Companies Law 159 of 1981 literally flung open the door to investors, both domestic and foreign. It amended the stifling effect of Law 26, which had been a deterrent to domestic investors wishing to expand existing businesses. In effect it resparked the free enterprise system domestically and entrepreneurs began flourishing.

A survey of the Egyptian economy designed to gauge the 10–year effect of investment laws from 1974 through 1984 found that by the end of 1984 some 65 percent of total capital invested in Law 43 projects came from Egyptians. Government officials believe that thanks to the £E 4.3 billion of domestic investment, £E 2.5 billion in foreign investment was attracted.

While there have been difficulties, as could be expected, the successes have far outweighed them and the future looks bright for Egypt and for foreign investors who want to share in that nation's promising future.

Dr. Ahmad El-Dersh, Undersecretary of State, Ministry of Economy and Foreign Trade: more emphasis on foreign investment and joint private investment.

Law 43 Encourages Investment

Law 43 sets three conditions for investment in Egypt:

1. The proposed project will contribute to meeting the basic production and social needs of the nation.
2. The project will have a favorable impact on the balance of payments through import substitution and/or increasing exports.
3. The project will improve the level of technology in the nation.

Investors are offered a wide array of benefits, such as guarantees against nationalization and confiscation, as well as tax holidays ranging from 5 to 15 years from production/operation date.

Support For Investors

Egypt is attracting an increasing number of American companies looking for a suitable manufacturing base for intermediate goods and consumer products. Their goal is to expand sales in the domestic market and to gain access to export markets.

For those American companies who want to tap both markets, the Egyptian General Authority for Investment and Free Zones is a willing ally ready to provide assistance and counseling.

To improve its service to potential investors and to actively encourage the participation of U.S. companies in joint venture investments, the authority has launched a private sector feasibility studies program with financial support from the United States Agency for International Development. The objective of the program is to help those companies in the identification of potential investment opportunities.

The program is broken down into three key areas: sector surveys, reimbursement programs and investor assistance.

Sector Surveys

The Authority has prepared surveys of 10 industrial sectors. Each survey provides information on present participants in those markets, estimates of local supply and demand, availability of raw materials and current production distribution systems.

Also included in the surveys are profiles of specific investment project opportunities.

In choosing the 10 sectors two criteria were used: Business activities that would be of interest to U.S. companies and activities consistent with an Egyptian investment goal. The 10 sectors are:

- Food crop production and processing.
- Meat, poultry and fish production and processing.
- Health care products and equipment.
- Construction materials, components and systems.
- Non–electrical machinery.
- Integrated agribusiness.
- Non–food chemical processing industries.
- Automotive components.
- Electrical and electronic machinery.
- Maintenance and repair facilities.

While these 10 sectors are the main focus of Egyptian investment authorities, any other investment opportunity will also gain assistance from the organization should American firms wish to investigate the potential.

To create jobs and meet the growing needs of about 50 million citizens, Egypt pursues an economic plan that fosters private sector development and provides incentives to attract foreign investment to Cairo (above), Port Said on the Suez Canal (below) and elsewhere.

Reimbursement Programs

The Private Sector Feasibility Program, a cost–sharing program established with the cooperation of the U.S. Agency for International Development, provides financial support by reimbursement to U.S. companies to help move a specific investment project through conceptual and detailed feasibility study phases.

For example, if a U.S. firm is in the small or medium–sized category it can be reimbursed for up to $6,000 in direct costs for short trips to Egypt. This allows for two round–trip economy air fares between the firm's home office and Egypt and other allowable trip expenses.

But the assistance doesn't stop there. A firm that makes a pre–feasibility study on a specific investment project in Egypt may be reimbursed on a cost–sharing basis for a preapproved study up to a maximum of $200,000.

While larger firms are not eligible for reimbursement for reconnaissance visits to Egypt, they are eligible for pre–investment feasibility study cost reimbursement assistance. Generally, any company is eligible which is incorporated in the U.S. or which is a majority–owned subsidiary of a U.S. corporation, and is deemed capable of undertaking the proposed joint venture.

Project eligibility is determined by the provisions of Law 43, the basic investment law of Egypt.

Generally, to be eligible a project must bring to Egypt the desired technology, know–how and foreign equity investment.

The project does not have to be one of those identified in the sectoral surveys and could be deemed eligible if the project is compatible with the overall objectives of the program.

Getting Started

Upon request the Investment Authority will send detailed information on the program and guidelines. In the packet will be application and budget forms for use in providing the Authority with information on the U.S. company, the investment project being considered, and the company's work plan for the reconnaissance visit or feasibility study.

The authority will evaluate this information and make a decision.

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Support For Investors

If the decision is favorable, it will result in the authority requesting the company to sign a formal agreement covering the proposed work plan and procedures for reimbursement.

Throughout the process the Investment Authority works with the potential investor, ready to provide further information and introduction to possible suppliers, distributors and local joint venture partners. The agency will also provide one of its staff to assist in the investigation.

U.S. companies contemplating making application to the Private Sector Feasibility Studies Program for allowable cost reimbursement of either a reconnaissance visit or a pre–feasibility study, or which would simply like more information on the business climate and specific investment opportunities in Egypt, are invited to contact any of the following:

Commercial and Economic Office
Embassy of the Arab Republic
of Egypt
2232 Massachusetts Avenue, N.W.
Washington, D.C. 20008
(Tel. 202–265–9111)
(Telex 64251 COMRAU)

Director, Private Sector Studies
General Authority for Investment
and Free Zones
8 Adley Street
P.O. Box 1007
Cairo, Arab Republic of Egypt
(Tel. 903776/902645)
(Telex 92235 INVEST)

U.S. Agency for International
Development
Office of Finance and Investment
106 Kasr El Aini Street
Cairo Center, 8th Floor
Cairo, Arab Republic of Egypt
(Tel. 28219)
(Telex AMEMB UN)

U.S. Investment Promotion Office
Nile Tower
21 Giza Street
Cairo, Arab Republic of Egypt
(Tel. 727251/727401 Ext.156)
(Telex 7474 MIDB)

Eng. Maher Abaza, Minister of Electricity and Energy: "Our successes—and our programs are 100 percent on course—are a result of teamwork."

Planning Power For Tomorrow

As have many nations, Egypt constantly reevaluates its energy needs and recently made a decision to reduce the number of its planned nuclear power plants.

The long-range energy plan had called for eight nuclear power units by the year 2000, but now Egypt has scheduled only four for completion, the first by 1990 on the coast near Alexandria.

The decision to cut the number of nuclear power stations from eight to four, Egyptian officials note, was not due to any significant antinuclear power sentiment in the nation, but rather to better utilize Egypt's natural resources and provide greater self-sufficiency. The government plans to issue its first letter of intent this month. Competitors for the project are from the United States, West Germany and a joint French-Italian group.

"At the same time we decided to build four very large coal-powered units. Two will be located at Zaafarana and Eyoun Mousa," says Mohamed Maher Abaza, the minister of electricity and energy.

"Our plans call for the third plant to be completed in 1993 and the fourth in 2000," he adds. These will join a 1,200-megawatt plant located in the Sinai and another at Sidi-Krir on the northwest coast.

While these plants will be able to utilize fuel from coal deposits located in the Sinai, a 100-year supply, Egypt plans to import the bulk of the fuel from the United States, Canada, Australia and possibly the People's Republic of China.

These four power plants will have the capability of being fired either by coal, petroleum or natural gas, but the nation has based its planning on reserving petroleum for transportation uses and petrochemicals.

"Most definitely we will not build any more oil-fired plants. In the future they will be coal- or natural gas-fired units."

Minister Abaza, an engineer by training, is credited with much of the success enjoyed by his ministry in keeping pace with the growing demand for electric power, but he quickly credits his organization, saying, "We are just a group of technocrats trying to do our job. Our successes—and our programs are 100 percent on course—are a result of teamwork."

In doing that job, however, Abaza often finds himself a target for the press and critics because he has taken the lead in the often unpopular role of preaching conservation. He heads the government's Conservation of Energy program, a national effort that uses all forms of communications to reach the public. In addition, Abaza makes himself highly visible throughout the nation by frequent visits to all his installations.

The rise in demand for energy is not unexpected with the growing standard of living in the nation.

While it is not alarming, the growth in demand for electric power is closely watched by the ministry. In 1975 the annual per capita consumption was 205 kilowatts, far below the world average. In five years, however, it jumped to 450 kw.

By 1982 Egyptians were using 500 kw annually and today the per capita consumption of electric power hovers around the 700 kw mark. Demand is expected to reach 1,600 kw by the year 2000.

"That is the target figure we have used in our planning," says Abaza. The growth rate in consumption reached 15 percent annually in 1984, causing Abaza and his ministry to accelerate their conservation efforts. His projections show that the annual growth rate will decline to 13 percent in 1985, and he expects to have the annual increase down to 10 percent annually in 1986 and subsequent years.

While conservation efforts will have a continuing impact, the government is also focusing on alternative sources, such as solar energy. To better exploit this inexhaustible source of energy, the Mubarak government established a ministerial committee to evaluate the situation and come up with recommendations.

In mid-October the committee proposed legislation that will require all new buildings to install solar heaters. The new legislation is specifically aimed at the new cities in the desert regions by prohibiting the use of natural gas for water heaters. Loans to housing cooperatives will be increased to cover the additional cost.

Additionally, the committee has recommended requiring public and private sector industrial factories that use low and medium temperature water, such as soft drink plants, to utilize solar heating units. Private, public, military and teaching hospitals will be required to use solar heating.

Solar heaters are already in operation in some areas and some installations, such as the Armed Forces Hospital. In addition, other uses are being tested, such as powering a refrigeration unit for fish storage near Aswan High Dam lake and a water distillation unit at phosphate mines along the shore of the Red Sea.

Studies are also under way to evaluate this form of energy for pumping stations and other agricultural use near the High Dam and in remote areas.

The committee recommended prohibiting the issuance of licenses and permits for new factories that would produce electric heaters and furnaces and to give notice to existing factories to begin converting their production to solar heaters.

To ease the transition, the committee favors giving those producers tax exemptions during the transition and directing commercial banks to grant low-interest and easy-term loans to such factories. Egypt, however, is already well prepared industrially for the transition. With the assistance of a $25 million U.S. AID grant and a $12 million grant from the EEC the nation, says Minister Abaza, has an established industrial sector that can now produce solar heaters.

Minister Abaza's organization has prepared a subsidiary plan that calls for solar and other non-traditional energy sources to provide 5 percent of the nation's energy needs by 2005. Included in this group are wind power, sea power and organic materials that can be converted into petroleum substitutes.

While Egypt does not plan to heavily develop its coal resources, a sudden loss of imports would not be a problem because of the adaptability of these furnaces to using petroleum or natural gas. This provides the type of flexibility planners like to have available, particularly since the nation is self-sufficient in petroleum and natural gas. Egypt, for example, exports petroleum products and an ambitious exploration and development program is underway in further promising areas.

Nor is the nation ignoring further utilization of the source of all life in Egypt—the

Nile River. Today the water level at the High Dam at Aswan stands 10 meters higher than in prior years. Certainly one of the engineering marvels of modern times, the Aswan High Dam serves a dual purpose of controlling the flow of the Nile and electric generation. Lake Nasser, formed by the dam, is a vast 2,000–square–mile body of water fed by the flow of the White and Blue Niles.

The first utilization of the flow of the Nile for electrical generation came in 1960 when the Aswan Reservoir Electric Plant came on line. The plant has a capacity of generating 345 MW, but when the High Dam was completed the decrease in water flow caused capacity to drop to 239 MW, and during peak water flow periods the unit could not utilize the total potential.

To tap this source during the entire year, the Egyptian government began construction of a new hydroelectric plant consisting of four units. The second unit began generating this fall, the third will become operational this winter and the fourth in the spring of 1986, adding a total of 300 MW of generating power.

Another source of Aswan power are the barrages (small dams) that are part of the Aswan complex. At the Esna Barrage the government is in the process of building a new barrage and a 410 MW power station, a six–year project. Also under consideration are power plant complexes at the Asyout and Nagahammadi barrages.

Determined to extract the maximum power from the Nile's waters, Egyptian engineers are actively studying the possible use of pumped storage facilities along the river.

Such installations would be built to take advantage of natural depressions in the desert to store water, which could be released later to generate power. In addition, these reservoirs would be able to relieve pressure on 310–mile–long Lake Nasser and also provide a source of water for irrigation to reclaim desert land for agricultural purposes and fish farming.

Nor are the water–conscious Egyptians ignoring their coasts that border the Mediterranean and Red Seas. A 2x150 MW pumped storage plant is scheduled for completion by 1990 at Gabal Galala on the Red Sea. And while still only in the study stage there is an ambitious plan to divert water from the Mediterranean to the Quattara Depression in the Western Desert as a source of electrical power generation.

These future projects hold great promise, but Minister Abaza keeps close to the schedule laid out by the nation's long range plan. For example, a primary goal is to bring electricity to rural areas.

"We are right on schedule," he says. "All rural villages of over 1,000 population have now been electrified, and we expect to reach all rural areas by 1990."

And he is quite confident of the ability of his organization to bring power to new industrial centers being built in the desert, such as October 6 City, where a new General Motors Egypt truck assembly plant has started production.

As to availability and reliability, Minister Abaza says to U.S. investors: "Come to Egypt and see for yourself. You will find a good example in General Motors. Everyone is welcome and I can promise you that we will help you with all of our means and resources."

A strong selling point is his organization's ability to make or beat deadlines that have been set, such as increasing total electrical generation capacity from 18.5 billion kwh in 1980 to 104 billion kwh in 2005, and a commitment to modernize the distribution systems in major manufacturing centers around Cairo, Alexandria and other major cities as well as newer industrial areas.

There seems to be no question that Abaza and his team are fashioning a well–balanced and modern electrical energy and distribution system. It will efficiently meet the needs of Egypt's ambitious economic development plans and retain its enviable strategic position as the logical supplier to the African continent and the Arab world.

Abaza is quick to credit U.S. AID (Agency for International Development) assistance in the form of grants and low–interest loans for a significant role in his nation's ability to meet its goals. From 1975–1985 this assistance amounted to $1 billion, and Egypt has asked the agency for $250 million annually over the next four years.

"I assure you that this $1 billion has been used as it was intended and will be in the future," he says.

In addition to construction of needed power stations, Egypt used the AID funds to purchase and install a powerful Control Data computer in 1983 as the heart of a National Control Center for Energy Control. U.S. AID financed the project with a $41 million loan and a $2.5 million grant.

Law 159: The New Companies Law

In 1974 the Egyptian parliament enacted Law 43, which opened the door to foreign investment. The objective of this forward–looking legislation was to encourage the investment of Arab and other foreign funds in the economic development of the nation.

One of the most far–reaching amendments to this basic bill was Law 159, enacted in 1981, which had as its purpose the bringing of Egyptian capital into the growing activities promoted by Law 43.

Called the New Companies Law, its purpose was essentially to place Egyptian investors on equal footing with foreign investors and thus promote more joint ventures and further liberalization of the law affecting investment.

The major changes:

- Companies are no longer required to purchase government bonds or distribute a share of profits to workers in an amount equal to 25 percent of net profits. Instead, not to exceed total annual salaries, companies must distribute up to 10 percent of the net profits to employes.
- Worker–selected board members are no longer compulsory, if an alternative participatory plan is adopted. Shareholders may opt for worker representation, or choose one of the alternatives suggested by the law.
- The concept of privileged shares has been adopted and shareholders are no longer limited to voting a maximum of 25 percent of total shares present, irrespective of the number of shares they own.
- Merger procedures are spelled out in the law, which establishes some measure of protection for merged company shareholders. The law also spells out rules and procedures for liquidation and dissolution of companies.
- Application to establish companies under the law will automatically be approved if no action by the government is taken within 60 days of the date of application. In the past a presidential decree was required in order to establish companies under Law 43.
- A joint stock company may have authorized but unissued capital at the time of incorporation.
- The salaries of executives and other company employes are no longer limited to £E 5,000 annually.

The result is a modern control center that is the nerve center for the ministry. Into it flows on-line data on the status within the entire grid. In the Cairo control center engineers have a full and detailed view of what is happening at any moment, at any power generating station and in any distribution system.

From there the ministry's engineers control the system by remote control. And throughout the system the operators know that beside his desk Engineer Maher Abaza has a remote station complete with a video display and keyboard.

A touch of the finger on the keyboard gives him an almost instantaneous presentation of the status of the system; another shows the generating levels of the 12 turbines at Aswan; still another shows the load in the Alexandria area.

When Minister Abaza runs through a demonstration for a visitor it quickly becomes apparent that he is not a bureaucrat with a new toy, but a thoroughly professional engineer efficiently using the latest state of the art in modern technology to get the job done.

The Cairo Connection

EgyptAir, the globe-ranging airline of the Arab Republic of Egypt, now offers direct flights twice weekly between New York and Cairo.

The inaugural flight took place on May 17, offering Boeing 747 jumbo jet service to travelers who might plan to stay weeks in the ancient land of the Nile or to those who want to sandwich a weekend there into a busy schedule.

"Our timing was chosen very carefully," says Abdell Moneim Osman, general manager for U.S. operations. The New York City-based veteran of 28 years' experience with the airline adds: "For example, you can leave New York on Sunday or Friday at 10 p.m. and arrive in Cairo at 1:50 p.m. on Monday or Saturday."

Racing with the sun, the direct flight leaves Cairo at 9 a.m. on Friday or Sunday, arriving in New York's John F. Kennedy Airport at 2:20 p.m. From New York to Cairo the average flying time is 10 hours, and from Cairo to New York it is 11 hours.

Should anyone be concerned about security, Osman hastens to point out that a recent international survey of airports showed Cairo International Airport to be among the safest in the world. In New York the EgyptAir 747 uses the Pan Am terminal and Pan Am's security system.

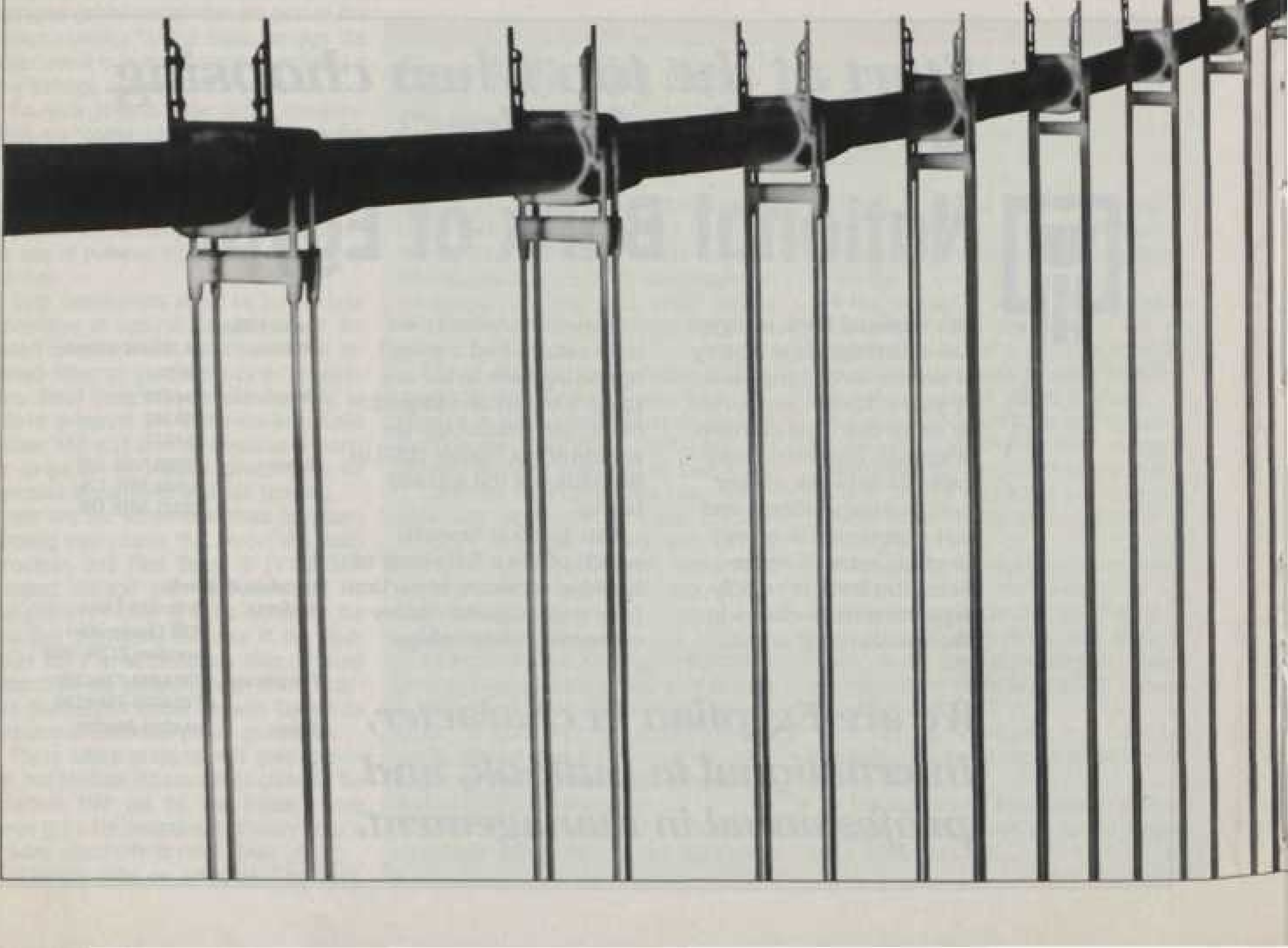
In addition to a proven record of security, EgyptAir has acquired a well deserved reputation for outstanding flight operations that has enhanced its reputation for comfort, punctuality and reliability on a myriad of routes that cover the major cities of Western Europe, Africa, the Middle East and the Orient.

Currently, the only U.S. carrier flying direct to Cairo is TWA. Osman points out the new EgyptAir service is simply exercising reciprocal rights.

"We are not trying to upset the market," he says. "We want a small piece of the pie. We only carry passengers and cargo between America and Egypt and provide what we see as a needed service."

NO TOLLS ON THIS BRIDGE

The Hitachi Foundation: a new effort in the bridgebuilding of ideas




Hitachi is an American company. Has been for 25 years. We are also Japan's largest electronics firm. So we are a bridge between two great peoples, two great cultures. We work daily with the obstacles which threaten to harm U.S.-Japan relations. Our languages share no common root and our customs come from different traditions. But we know that slowing traffic by tolls on our bridge, and the other bridges between America and Japan, simply hurts both sides. So to commemorate our 75th Anniversary, as well as U.S.-Japan relations, we have set up in Washington D.C. the Hitachi Foundation, with a $20 million endowment. The Hitachi Foundation, which will be independently run, will fund cultural, scientific, educational and community development projects in the United States. After all, we have a lifetime stake in the United States as an American company with more than 4,000 U.S. employees and 29 sales and manufacturing facilities in 9 states. Furthermore, in the near future, Hitachi will open more local manufacturing facilities. Hitachi's relationship with the U.S. also prompts us to spend an additional $400 million in the coming year to export U.S. products to Japan, because we know that bridges are two way streets. Continued prosperity in our homes requires us to do all we can to keep our bridges open, free-flowing, and ever-expanding. Hitachi is proud to play its part as an active link across the Pacific.
HITACHI

PERSONAL/FINANCE

Dollar Down But Not Out

The concerted attempt to force down the price of the dollar has had mixed results. What's an investor to do?

By Ray Brady

"The Federal Reserve will deliver a knockout punch to the currency."
—*Pierre Rinfret, economist*

I was in the "ring" at the start of the punch that Rinfret was predicting. It was a hot Sunday night in September, and there were the press and the financial ministers of four top Western nations, plus Treasury Secretary James Baker and Federal Reserve Board Chairman Paul Volcker—all of us jammed into a too-small, stifling room in Manhattan's Plaza Hotel. Then came the big announcement: a concerted move by those nations to drive down the price of the American dollar.

The following day, the dollar took its biggest price plunge in many years, and the drive seemed to be succeeding. Since then, though, the course has been erratic—with the dollar sometimes steadying, sometimes dropping, sometimes rising.

Veteran analysts believe the dollar is going to be a continuing influence on the stock market.

How do you play this element in investing?

Wall Street has had all kinds of strategies for dealing with a drop in the dollar (see "When To Jump On The Dollar-Coaster," NATION'S BUSINESS, May, 1985). Analysts recommended, for example, buying the so-called dollar plays, stocks of multinational companies that count on foreign profits for a big piece of their earnings. Included, of course, are companies in the drug, food and soft-drink industries. But after a quick spurt, such stocks soon fell back in price.

Reason: "The market," says top analyst William LeFevre, of the Wall Street firm of Purcell, Graham & Company, "had already discovered the positive factors in a dollar drop, and investors had bought a lot of the stocks of companies that would be beneficiaries." He means sophisticated investors. When others followed them, prices rose but then fell as some of the earlier buyers took profits.

Foreign stocks, it should be noted, also have reflected the fact that the U.S. dollar has been declining more or less steadily since its top early this year. That is because, as the dollar goes down, the value of a stock traded in, say, West German marks automatically goes up. Suppose the dollar drops 8 percent against the mark. Even if a German stock remains steady in its market price, the stock would be worth roughly 8 percent more in dollars once the holder sells it and converts his gain into U.S. funds.

PHOTO: RANDA BISHOP

As a weaker dollar strengthens foreign stocks, portfolio manager Lilia Clemente seeks investments in countries with low inflation rates.

It is tough enough to pick U.S. stocks without trying to figure out what foreign stocks an investor should own. There are, however, a number of mutual funds that invest all over the world and have done fairly well at it.

Lilia Clemente is the portfolio manager of one, the Paine Webber Atlas Fund. The fund has some U.S. holdings, but its investments also are in West German, Swiss, Japanese and Italian stocks. Clemente says she looks for investments in countries that have low inflation rates and companies with sound prospects and attractively priced shares.

Other funds that invest abroad include Simms Capital Management, the Fidelity Overseas Fund and the Scudder International Fund. Scudder, a pioneer of the globe-trotting funds—it started in business in 1953—typically has 20 percent of its money committed to Japanese stocks.

The one thing that stands out in all this, however, is that the dollar's uncertain course is going to make the stock market more precarious than usual.

Consider this major split among the knowledgeable: Some say that as the dollar drops, foreign investors will sell their U.S. holdings—mostly Treasury bonds—and that the U.S. government therefore will have to borrow more and more money domestically. That will send interest rates up, which has always meant hard times for stock prices.

But economist Rinfret and others see just the opposite happening. High interest rates have been the main push behind the dollar. So, argues Rinfret, the Fed will embark on a course to drive down rates, because that would get the dollar down and ease the trade problem without quotas and other restrictions. That course of action, says Rinfret, "is far more intelligent, far more sophisticated [and] far more acceptable."

An early American humorist, who wrote under the name of Josh Billings, once said: "A dollar bill, once broken, is never a dollar again." If he were writing today, Billings might add that the big problem for the market in the months ahead may well be to find out just what that dollar is—and does—once it has been broken. NB

Ray Brady is the business correspondent for CBS News.

MANAGING YOUR BUSINESS

Sharing Trade

Small business leaders preparing for the White House Conference want more done to help firms into international trade.

By Mary-Margaret Wantuck

Current world trade in goods and services is assessed at $2 trillion a year. Exports from the United States stand at $220 billion.

More than 90 percent of the U.S. exporting dollar is the domain of America's largest corporations. Less than 10 percent is handled by small exporters, although the Small Business Administration estimates that at least 20,000 small firms (out of the 14.2 million with fewer than 500 employes) have the capability to export profitably.

With a trade deficit of $150 billion, the United States can ill afford to neglect the export potential of small companies.

The 1980 White House Conference on Small Business did jog Congress into passing new export laws to open doors for small business:

- The Small Business Export Expansion Act of 1980 created an Office of International Trade within the Small Business Administration, instituted a loan program to help firms prepare to export and created one-stop export service offices.
- The Export Trading Company Act of 1982 exempted collective trading companies from antitrust laws.
- The Export-Import Small Business Assistance Act of 1983 required the Export-Import Bank (Eximbank) to set aside 6 percent of its annual direct loan authority for loans of less than $5 million.

Some small business people say that the changes are inadequate. The Export Trading Company Act, for instance, does not provide automatic tax deferral of foreign income. And the Eximbank's financing assistance for those smaller firms that want to export falls far below the Japanese and British governments' help for 35 percent of their small firms.

"I've found insufficient export financing for small business to be a big problem," says Elizabeth Gould, vice president of international sales at National Graphics in St. Louis, a manufacturer of photographic paper. "Eximbank continues to concentrate on large business; they're shooting above our heads."

Private banks are just as wary, says Richard Giesser, chairman of the Massachusetts Port Authority. "It's not like going to your local banker and asking for a business loan for expansion. This is something entirely different. There are added risks, and there's a lot of money that banks have to shell out. It's just a lot easier to do business with one large company than do 50 small loans."

Susan Davis runs a consulting firm that helps American and foreign companies through the negotiating process. Davis feels cultural barriers are the biggest hurdle small firms must overcome if they want to export successfully.

PHOTO: T. MICHAEL KEZA

But Giesser believes that as bank competition increases, banks are going to have to get deeply involved in small company export financing. "If they don't," he warns, "they're going to be losing out on business from major job producing and economy-expanding firms that have really been the story of America's success in the last few years."

There are bright spots. The Overseas Private Investment Corporation, a federal agency, encourages American business investment in about 100 less developed countries in Asia, Africa, Latin America and the Caribbean, offering such services as direct and guaranteed loans ranging from $100,000 to $4 million. Since 1978, it has attempted to offer more of its services to smaller businesses. The drawback, however, is that it defines "smaller" as those companies not found among the largest 1,000 corporations in the country.

OPIC also offers insurance protection to cover companies' initial investments and earnings against such problems as expropriation, war and revolution. For those it defines as smaller companies, it will also pay certain insurance registration, brokerage, legal and consulting fees.

The SBA's Export Revolving Line of Credit Program lets small firms finance labor and materials needed for manufacturing or wholesaling for export, and for penetrating or developing foreign markets.

SBA and the Eximbank will co-guarantee loans to small firm exporters and export trading companies. The co-guarantees extend to loan amounts ranging from $200,000 to $1 million per borrower and cover 90 percent of the total loan.

President Reagan has also suggested establishing a $300 million war chest designed to counter foreign countries' practice of using foreign aid appropriations to subsidize international bids of

their companies. The Treasury Department would provide grants to U.S. firms—both large and small—before they submitted bids for international sales, thereby radically driving down the price of the bid and enabling the U.S. firm to capture the contract.

Another stumbling block for small business is the time and effort expended in tracking down necessary information on how to export.

According to a report on international trade from the 1980 White House Conference, one reason there is a dearth of small business exporters is their "inability to successfully identify, develop and market their goods, products and services to foreign markets."

There are several government agencies that help potential exporters pinpoint the likeliest overseas markets. But most of them direct their services to big companies.

At numerous small business conferences, a frequent proposal has been to consolidate all trade activities into one agency headed by a cabinet-level representative. U.S. trade and investment policy decisions are split among 25 executive branch agencies and 19 congressional subcommittees, and that has caused duplication, fragmentation and a lack of cohesiveness.

"There has to be a coordinating and decision making body that can pull it all together," says Charita Kruvent, president of Creative Associates, a Washington, D.C., firm that provides educational and scientific help to Third World countries.

Giesser views a cabinet-level agency as a "good move," but feels that the "most effective good will come from the local scene. It's hard to believe that people will be satisfied with the attention that they get from a huge centralized operation when they can work more easily and quickly with a local agency or individual who has a direct responsibility to them as constituents. Maybe the federal government can help when it comes to tariffs and major financing programs. But I think the service side is better handled by state and local governments and the private sector."

Massachusetts Port Authority Chairman Richard Giesser believes small firms will get the most exporting help from the states and the private sector.

PHOTO: RICK FRIEDMAN—BLACK STAR

The current intense national concern over international trade is a recent phenomenon, and long overdue, according to many business people.

Kruvent thinks that the reason the United States has not in the past put trade in the limelight is that it has not been part of the American culture to look abroad. "It's not just the government," she maintains. "It's the American people as a whole. They feel more secure and comfortable staying within their borders than trying the overseas route. We tend to look inward, not outward."

Kruvent's thoughts are echoed by Susan Davis, president of The Davis Company, a public relations consulting firm that helps both American and foreign businesses through complex negotiations. "The major stumbling block for small firms going abroad is the cultural barriers," she says. "Negotiating can be tricky. Foreign countries don't understand U.S. management techniques or what feasibility studies are. American business people must cultivate patience, know what certain gestures and words mean in another language, and even understand that language to some extent."

Egils Milbergs, former executive director of the President's Commission on Industrial Productivity, states flatly that American business is "still not being outinvented or outmanaged, but we're certainly being outmanufactured and outproduced. It's imperative that we get our trade policy in order and that trade become a national priority." NB

Where Small Business Can Find Help

Any small businesses interested in exporting abroad can contact the following federal agencies for export and foreign direct investment assistance:

U.S. Department of Commerce
International Trade Administration
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230

U.S. Department of Commerce
National Oceanic and Atmospheric Administration
National Marine Fisheries Service
Washington, D.C. 20235

U.S. Department of Commerce
Minority Business Development Agency
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230

U.S. Department of Agriculture
Foreign Agricultural Service
Washington, D.C. 20250

Export-Import Bank
811 Vermont Avenue, N.W.
Washington, D.C. 20571

Overseas Private Investment Corporation
1615 M Street, N.W.
Washington, D.C. 20527

Office of the United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20501

U.S. Small Business Administration
Office of International Trade
1129 20th Street, N.W., Suite 412
Washington, D.C. 20416

In addition, the Small Business Administration has a 12-page booklet entitled "Market Overseas with U.S. Government Help," which lists various federal agency exporting programs and publications. The cost is 50 cents. Write the U.S. Small Business Administration, P.O. Box 30, Denver, Colo. 80201-0030.

Executive Pay

A strong economy has meant strong pay increases in 1985, but those increases show signs of moderating.

By Alan M. Johnson

A strong U.S. economy drove 1985 pay raises for top U.S. executives to double-digit percentage levels for the second straight year. However, the increases are showing signs of moderation.

Total compensation (salary plus annual bonus) for executives increased by an average of 10.7 percent in 1985. The average percent increase, however, was nearly two percentage points lower than 1984's total compensation increase of 12.6 percent.

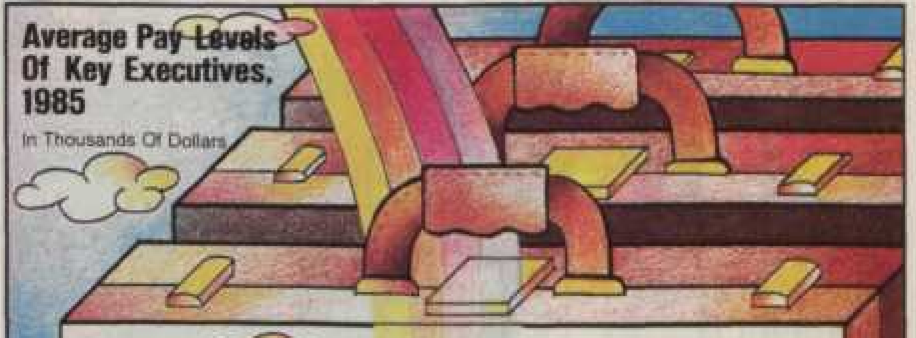
While senior executive pay increases moderated slightly, the results were more dramatic for chief executive officers and chief operating officers. Total compensation increases in 1985 averaged 12 percent for CEOs and 14.1 percent for COOs compared to 18 percent last year.

Salary increases for top executives averaged 7.9 percent, down from 1984's 8.4 percent. With inflation running at about 4 percent annually, most companies were able to keep salary increases down and still provide executives with a comfortable real earnings gain of about 4 percent in 1985. Salary increases for white collar workers in general—professionals, managers, etc.—also declined in 1985 (see related story).

These are some of the findings in the 21st edition of Sibson & Company's annual Executive Compensation Report, which describes compensation practices at 1,000 companies with annual sales ranging from $10 million to $30 billion.

Average Pay Levels Of Key Executives, 1985

In Thousands Of Dollars



	CHIEF EXECUTIVE OFFICER		TOP FINANCIAL EXECUTIVE		TOP MANUFACTURING EXECUTIVE		TOP GROUP EXECUTIVE	
REVENUES	SALARY	BONUS	SALARY	BONUS	SALARY	BONUS	SALARY	BONUS
$10 million to $25 million	$121	$ 22	$ 67	$ 9	$ 67	$ 9	$ 98	$ 22
$25 million to $50 million	148	33	79	14	75	13	115	29
$50 million to $100 million	177	46	92	19	82	16	131	39
$100 million to $500 million	252	85	125	34	98	23	174	62
$500 million to $750 million	305	116	148	44	109	27	202	78
$750 million to $1 billion	333	132	159	51	114	29	215	88
$1 billion to $5 billion	456	223	210	79	135	38	276	130

SOURCE: Sibson & Company.
Data effective as of December, 1985

CHARTS AND ILLUSTRATIONS: RON FLEMMINGS

Bonuses Reflect Performance

As companies prospered, so did their executives. The size of bonus awards was usually tied to measures that indicate how well a company is performing—profits, earnings per share, etc. Profits for the nation's 500 largest industrial companies increased a robust 25.6 percent in 1984, compared with 1983's 12.1 percent. Our survey also shows that 90 percent of all executives received pay raises in 1985.

The competitive marketplace traditionally rewards talent or skills that are in short supply. The supply of executives who can successfully run a corporation is limited. At the same time, demand for these executives has increased because of greater foreign competition, slower real growth in the economy, and intense competition for market share. The result is companies paying higher prices to attract and retain top executives.

Growing Emphasis On Incentives

Base salary still represents the single largest element of the total compensation package, which includes salary, annual and long-term incentives, benefits and perquisites. However, the value of incentives to the total package is growing. More than 90 percent of U.S. companies have management incentive programs.

Incentive plans can have more of an effect on an executive's total compensation than salary increases. For example, an executive with an annual base salary of $100,000 may have a target incentive of 30 percent of salary, or $30,000. If the executive and company meet performance expectations, the executive would receive $130,000 in salary and annual bonus. Without an incentive plan, the same executive might receive only $110,000 (if salaries went up 10 percent).

Long-term incentives continue to be a key element in the executive's total compensation package. More than 60 percent of U.S. companies offer some type of long-term plan. Of these companies, 90 percent offer stock options. These give executives a share of the company and a stake in its long-term growth. Since the amount of compensation realized from stock options has a direct relationship to the increase in stock value over a longer period, executives may focus their attention on the kinds of things that make the stock worth more.

Changing Tax Focus

During the past few years, the approach toward the taxation of executive compensation, benefits and perquisites has been shifting. Historically, there has been little consistency, and loopholes have abounded. Now Congress and the Internal Revenue Service are

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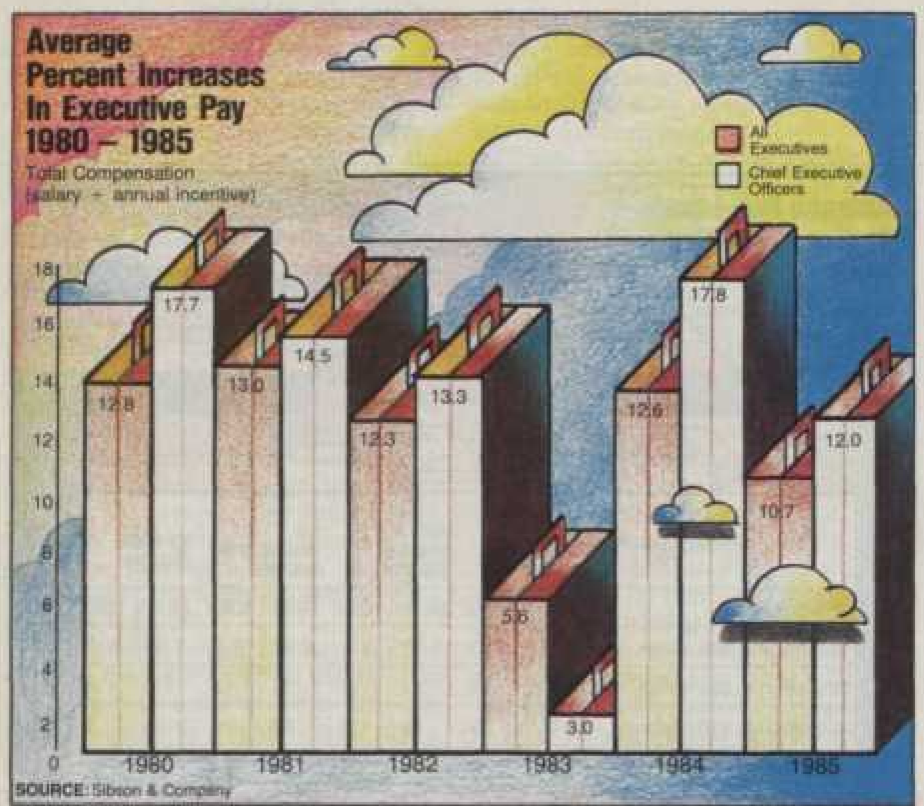

hoping to make the taxation of compensation more uniform.

There are numerous proposals in Congress to change current tax laws regarding compensation. One with far-reaching impact would eliminate the deduction for local taxes. It is unlikely that this proposal will be enacted in 1986, but it probably will pass in the next few years. If it does, there will be loud protests from employes who rely on the tax deduction to offset reduced income in areas where taxes are high.

Other proposals would affect employe savings and retirement programs such as 401(k), defined contribution and defined benefit plans. Under 401(k) plans, employes deposit part of their pre-tax earnings, which is usually matched by their employers. Defined contribution plans are retirement programs for all employes whereby companies deposit a certain amount per employe annually. The maximum amount a company can deposit is $30,000. Defined benefit plans are retirement plans offered all employes. After the employe retires, defined benefit plans generally pay an amount based on salary and years of employment. The maximum amount that can be paid at retirement is $90,000 annually.

The focus in Congress is to make each of these plans more alike. In addition, Congress wants these plans to be retirement vehicles—not savings plans—and is proposing to make it more difficult for employes to obtain any funds before retirement. One proposal being considered would change the maximum ceiling on defined benefit plans to $75,000 annually. We expect this would result in more companies adopting supplemental executive retirement plans (SERPs), which provide retirement benefits above the $90,000 limit allowed for qualified pension and profit sharing plans. Nearly half of all companies adopted SERPs in 1985—slightly higher than last year.

A proposed change in one benefit would require employes to pay taxes on 25 percent of the cost of all business meals. Proposals to tax business lunches previously have been shelved due to protests from the restaurant lobby. If approved, only meals that the company provides for employes on company premises would be tax free.

A regulation that went into effect this year requires company cars to be taxed at 100 percent of full value for any personal use. Thus, executives with company cars must keep detailed mileage records of business travel to avoid being taxed. Companies also must keep detailed accounts. In one company we know, three people are required just to keep track of the company automobiles.

Despite the changing focus, companies continued to provide perquisites to top executives at the same rate in 1985 as in previous years. Thirty-seven percent of companies provided officers with company cars; 32 percent paid for country club memberships; 28 percent provided financial counseling services; 26 percent paid for annual physicals; and 24 percent paid for luncheon clubs.

Merit Pay Drops

Employe merit increases declined in 1985 for the fourth consecutive year, according to Sibson's 1986 Salary Planning Survey of 1,100 companies. Merit increases average 6.4 percent in 1985 and will average 6.1 percent in 1986—the lowest levels in the current decade.

Salary plans remained relatively stable in 1985, but many companies are taking a conservative approach to salary plans for next year in response to a general uncertainty over future economic conditions.

The highest average merit increases next year are expected to go to salaried employes in high technology, finance and insurance organizations. The changing nature of these industries is causing them to be more competitive in seeking and retaining employes.

Creating Shareholder Wealth

Two emerging trends in 1985 were (1) relating pay to shareholder value and (2) offering bonuses to middle managers.

Some observers, including shareholders, say top executives are overpaid. But the more important issue is whether companies pay executives in a way that motivates them to improve company performance.

Sibson studies show that the correlation between pay and return to shareholders—the ultimate measure of company performance—is weak. Instead, companies have based bonus awards on measures that relate to short-term suc-

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	Average no. copies each issue during preceding 12 months	Actual number of copies of single issue published nearest to filing date
A. Total no. copies *(net press run)*	914,307	934,651
B. Paid circulation		
1. Sales through dealers and carriers, street vendors and counter sales	2,798	12,000
2. Mail subscription	883,854	875,329
C. Total Paid Circulation	887,652	887,329
D. Free distribution by mail, carrier or other means Samples, complimentary, and other free copies	17,719	16,161
E. Total distribution *(Sum of C and D)*	905,371	903,500
F. Copies not distributed		
1. Office use, left over, unaccounted, spoiled after printing	2,401	3,151
2. Return from News Agents	6,535	28,000
G. Total *(Sum of E, F1 and 2—should equal net press run shown in A)*	914,307	934,651

I certify that the statements made by me above are correct and complete

LEONARD I. RIPPA, business manager

MANAGING YOUR BUSINESS

Executive Pay

cess. More than 50 percent of companies with annual bonus plans use annual profits and earnings-per-share as performance measures. This tends to draw an executive's attention away from long-term strategy.

This trend appears to be changing. Many companies are redesigning their bonus plans to improve company performance through the creation of shareholder wealth—stock price appreciation and dividends. In doing so, companies are developing ways to measure performance that relate directly to an individual's work, and yet supports company goals.

One leading food products company revised its incentive plan so that instead of using overall corporate financial results to determine the size of individual bonuses, 30 business units of executives were created, each with its own goals and measures. If the business unit meets its performance targets, funding will be set aside for target bonuses, regardless of the company's overall performance. Actual bonuses will be awarded based on individual performances. In this way, individual and group performance relate directly to the amount of compensation the executive receives.

Incentives Extend Further Down

Top executives aren't the only employes whose total compensation is based on performance. Bonuses linked to individual and company performance are becoming common at middle management and professional levels. Companies are recognizing that a more leveraged pay package is necessary to retain and motivate these employes.

In a recent Sibson survey of 1,100 companies, nearly 60 percent of respondents indicated they had some form of incentive compensation program. Twenty percent planned to use incentives as a strategy to control compensation costs. The majority of these respondents said they would be providing incentives at lower levels.

The Outlook For 1986

Given the general uncertainty in the economy this year, we expect companies to award salary increases for executives that average 7 percent. Total compensation increases may drop below double-digit percentage levels. This is because bonuses in 1986 will reflect less profitable performance in 1985. NB

To order reprints of this and the following article, see page 89.

Small Business Pay Plans

Executive compensation in small business follows the pattern of large firms —but should it?

By Edward T. Redling

Small companies—those with less than $10 million in annual sales/revenues—are different from large companies, but not only in terms of money. Their financial status, growth opportunities, corporate philosophies and the tremendous possibilities for innovation in compensation planning distinguish small companies from large ones. Small companies are not simply little big companies.

It is instructive to consider some small companies' vital compensation data and note just how their special constraints and opportunities affect their compensation programs.

Executives in companies with under $10 million in annual sales/revenues received an average salary increase in 1985 of 4.7 percent, according to an analysis of data collected for the Executive Compensation Service 1985 Top Management Report, which features compensation data on 35 different top executive positions for more than 2,600 organizations. Top executives averaged higher increases (see chart). This average salary increase figure represents a 1.4 percentage point drop from last year's average increase of 6.1 percent for executives in this category.

The 4.7 percent average salary increase was 1.7 percentage points lower than the 6.4 percent executive increase in companies of all sizes. This is the second consecutive year that salary increases in these companies have generally been lower than in larger companies.

More than three out of five small companies surveyed—63.3 percent to be precise—have an annual bonus or incentive plan for their top executives. As expected, CEOs received the largest bonuses of all executives in small companies—with an average bonus of 41.2 percent of their salary. Top marketing and top financial executives were each awarded average bonuses of about 29 percent. Top manufacturing executives trailed the pack with an average bonus award of only 12.3 percent.

The average 1985 increase in total cash compensation (salary plus bonus)

Smaller Companies:
Average 1985 Compensation Levels For Top Executives In Companies With Under $10 Million In Annual Sales/Revenues
(In Thousands Of Dollars)

Position	Salary	% Increase	Bonus	Bonus as % of Sales	Total Comp.*	%Increase
CEO	$127.9	6.6	$52.8	41.3	$161.3	8.6
Top Marketing	53.7	6.7	15.6	29.1	61.8	9.8
Top Manufacturing	51.4	6.7	6.3	12.3	54.2	9.4
Top Financial	59.0	7.0	16.7	28.3	68.2	9.4
Top Purchasing	43.6	5.0	5.5	12.6	45.3	6.0

*Total compensation also includes salaries of individuals not participating in a bonus plan.

CHART AND ILLUSTRATIONS: RON FLEMMINGS

for all executives in companies with under $10 million in sales was 6.4 percent—a 1.6 percentage point increase from last year's 4.8 percent. The gap between overall executive gains and CPI growth increased significantly, with a total compensation lead of 2.7 percentage points as compared with a 1984 edge of only 0.6 percentage points. Although 1985 salaries increased at a lower rate than 1984 salaries, the payment of larger bonuses in 1985 resulted in total compensation increases that exceeded total compensation increases in 1984.

Top marketing, manufacturing and financial executives capped the executive list with total compensation increases averaging 9.4 percent to 9.8 percent. Top purchasing executives ranked last among these functional categories with an average total compensation increase of only 6 percent.

Among small companies, 43.2 percent have some type of long-term incentive plan. The most popular is the stock option plan, with 23.3 percent of these smaller companies opting to pursue this kind of program. Approximately 13 percent of the companies maintain non-qualified stock option plans. Combination non-qualified and incentive stock option with stock appreciation rights and restricted stock plans make up almost 7 percent of the executive programs which prevail among the under-$10 million companies.

These companies authorized an average of 5.1 percent of their shares outstanding for grants to executives. This is significantly higher than the 4.2 percent average for all companies.

Comparing data for small and large companies suggests that small companies have indeed contented themselves with "copy-cat compensation"—merely installing scaled-down versions of big companies' compensation programs. By playing follow-the-leader, small companies are missing a golden opportunity to develop truly innovative compensation programs. Freed of the bureaucracies and hierarchies of large business organizations, a small company is capable of instituting creative compensation plans ideally suited to its goals. NB

Edward T. Redling is president of Executive Compensation Service, Inc., a subsidiary of The Wyatt Company.

The NLRB At 50: Labor's Love Lost

By Leonard Curry

The National Labor Relations Board ruled in 1982 that a company could not move an operation from a unionized plant where a collective-bargaining agreement was in effect to a nonunion plant. The ruling was a major victory for organized labor.

Less than a year later, the board mitigated that decision, holding that a company could make such a move as long as it had not specifically agreed in its contract with the union that it would not do so.

What brought about such a stark reversal so quickly?

The first ruling was handed down when the board was still dominated by appointees of President Carter, the second when President Reagan's appointees had become a majority.

The United Auto Workers union, which brought the case to the NLRB when the Milwaukee Spring Division of the Illinois Coil Spring Company sought to move assembly operations from Milwaukee to a nonunion plant in McHenry, Ill., assailed the reversal. A spokesman charged that President Reagan had "deliberately packed the NLRB with folks who are anti-union and anti-labor."

Other recent decisions have produced angry outcries from labor leaders.

Last year, the board struck down what had long been one of labor unions' most potent weapons for enforcing internal discipline—the power to punish members who tried to resign from the union rather than strike.

When work was resumed, the unions could fine any individuals who had left the union and continued working. Acting under that policy, a pattern-makers' union levied fines against 10 of its members who had submitted resignations and gone back to work during a strike.

But, when the workers appealed to the NLRB, that agency held that union rules denying members the right to quit during a strike conflicted with the Taft-Hartley Act's guarantee of worker choice on union membership.

The U.S. Supreme Court upheld the decision, stating in an opinion last July that the board's expertise entitled it to deference by the courts as long as its interpretation of the law was reasonable.

Leonard Curry is a columnist for Scripps-Howard.

Congress passed the National Labor Relations Act and created the National Labor Relations Board 50 years ago in hopes of preventing this kind of violence, which pitted strikers on a picket line against nonstrikers wanting to go to work.

PHOTO: MILTON BROOKS, THE DETROIT NEWS; ARCHIVES OF LABOR AND URBAN AFFAIRS, WAYNE STATE UNIVERSITY

In a bitter condemnation of the court's action, the AFL-CIO asserted that the NLRB "is not worthy of such trust" and had a "fervent desire . . . to weaken the ability of unions to improve wages and working conditions through effective strikes."

Comments of the various labor leaders on those and other recent NLRB decisions were heavy with historical irony. They came in the 50th anniversary year of the establishment of the NLRB, which had been a major goal of big labor throughout much of its tumultuous history. And it was directed at an agency that, for much of its 50 years of existence, has been widely perceived as a bastion of support for organized labor.

President Reagan and his appointees to the board deny they have set out to favor management over labor. The Reagan-appointed chairman, Donald L. Dotson, says, "Standards have not changed markedly. The board still does its best to protect those who are discriminated against for trying to organize."

Nevertheless, there is no doubt in anyone's mind that historic and far-reaching changes are under way at the National Labor Relations Board, one of the pioneer agencies of the regulatory era that began in the New Deal.

The board was created by the National Labor Relations Act, which Congress passed in 1935 amidst the often bloody organizing battles that characterized the labor scene in the Depression. The law gave workers the right to organize for collective-bargaining purposes, and provided for a tribunal—the NLRB—to hear charges of unfair labor practices.

Having achieved its long-sought victory in the passage of the labor-relations act, unions envisioned a day when the industrial workplace would be completely organized. Union gains through the rest of the 1930s and well beyond World War II seemed to bring that goal nearer. In 1950, unions won 74 percent of all elections held to determine whether workers wanted to be represented.

As unions grew rapidly, they accu-

Unions are attacking their longtime ally, blaming the board for broad problems the labor movement faces. The attacks reflect major changes at this vintage New Deal agency.

mulated significant political power. Labor leaders could not only pour massive resources into the campaigns of chosen candidates, they could count on rank-and-file members to support those candidates at the polls. The process brought to Washington a continuing parade of elected officials, including Presidents, highly sympathetic to organized labor.

One result of labor's political clout was the appointment of such NLRB chairmen as John H. Fanning, considered one of the most pro-labor individuals ever to fill that seat.

Fanning had been a member of the board for 20 years when he was appointed chairman in 1977 and had served in various other legal and labor-relations posts in the federal government for 15 years before that. Apart from a brief stint in a law firm immediately after his graduation from law school, he had spent his entire working life in the federal government.

Although Dotson spent five years in an NLRB regional office after finishing law school, he had spent eight years in labor relations posts at three major corporations before joining the Reagan administration in 1981.

Labor lawyer John Irving, who was general counsel to the board during four years of Fanning's tenure, says that the panel under that chairman had "forged new rules and reversed, refined and extended then-existing precedents to extremes." For example, Irving says, the Fanning board took the position that union grievances could still be arbitrated after expiration of the collective bargaining contract that gave rise to the grievance.

The path to the new era envisioned by organized labor was not completely smooth, however. In 1947, Congress passed the Taft-Hartley Act, which allowed states to enact "right to work" laws prohibiting compulsory unionism. The act also outlawed secondary boycotts.

Nevertheless, labor's strength expanded during the economic boom of the 1950s and '60s before going into a decline because of the changing social and economic conditions of the 1970s.

Big labor launched a massive but eventually unsuccessful drive in the late 1970s to regain lost ground through passage of legislation that would have enabled unions to organize workers in a given company faster and more quickly, and would have made it more difficult for management to resist such organization drives.

Toward the end of his one term, President Carter made NLRB appointments that labor welcomed as a way of assuring it would continue to find a sympathetic ear in that critical agency.

But the Carter efforts were short-lived. The election of Ronald Reagan and a Republican-controlled Senate in 1980 launched a new political era in Washington, one in which labor no longer felt at home. Reagan has now appointed all five members of the NLRB, changing the face of the board entirely.

And it is that change that has brought on the wrath of labor leaders. With its new membership, the AFL-CIO charges, the board brings an "anti-union bias to even run-of-the-mill cases."

Richard Trumka, president of the United Mineworkers of America, charges the board with "destroying minimal protections afforded workers who seek to join unions."

Labor leaders and other critics of the current trend in NLRB decisions blame the board for broader problems the labor movement is facing today.

Paul Weiler of Harvard Law School, whose views on labor law have drawn sharp criticism from business, maintains that failure of the NLRB to insulate employes from "coercive, antiunion employer tactics" is responsible in large measure for labor's declining ability to win elections in which workers decide whether to unionize."

But the labor movement's problems began well before Ronald Reagan began to put his own philosophical stamp on the NLRB.

Only 17.9 percent of the work force is organized today, compared with 35 percent in 1945; unions have annually lost more than half of the representation elections held since 1974, after winning more than half in the previous 39 years; the number of elections held to decide whether to oust a union has increased dramatically in recent years, and so has the number of union losses in such elections.

Though the AFL-CIO's Silberman and the Mine Workers' Trumka blame the NLRB for hampering organization drives, other labor-law experts hold that the unions' attacks on the current NLRB are based on a misunderstanding of the underlying law.

Mark A. De Bernardo, labor law manager for the U.S. Chamber of Commerce, says that the board does not—and should not—balance the bargaining strengths of employers and employes. The board's role, he says, "is not to balance economic weapons, guarantee agreement or write the labor contract. Its role is to assure that the parties get to the bargaining table, then bargain in good faith. The board, however, cannot and should not have any interest in the result of the bargaining and cannot dictate terms to the parties."

Organized labor, however, has tended to view the board as a pressure point through which it could gain concessions from management, and sees current trends as a departure from the panel's proper mission. Business, on the other hand, sees the pendulum swinging back from an excessively pro-labor position to better balance.

The general view among labor-law experts is that no serious effort to amend the basic statute along the lines of the failed 1977 attempt by labor is likely to succeed, or even be tried, in the current political climate in Washington. Nor is any reform movement along the lines of Taft-Hartley expected from critics of the way labor law has been implemented.

It is more likely that trends started by the present board will continue within the framework of the present law.

As Chairman Dotson puts it:

"The law is still sound. One of the problems in the past has been the way previous boards have interpreted it. Of course, the board can change those interpretations without having to urge Congress to change the law."

The significance of that statement to national labor relations policies lies in the fact that all members of the board that would be reinterpreting the law are appointees of Ronald Reagan.

PEOPLE/PERSONAL

Making It

Finding A Slot And Changing It

PHOTO: T. MICHAEL KEZA

Alan Shure (left) and James Gaza realized the market for their slot car was declining, so they used the tiny motor in new products.

PHOTO: MARTHA LEONARD

Remember slot cars? They were the sleek model automobiles of the late '50s and early '60s that careened around race tracks with realistic abandon.

Storefront slot car racing emporiums were the forerunners of today's video arcades. Teen-age fans rented time on the track and spent loving hours tinkering with the latest models.

To most people, a slot car was merely a toy. To Alan H. Shure and James L. Gaza, a slot car was the shell that housed a miniature motor.

Shure and Gaza were executives for Strombecker Corporation, the leading producer of slot cars. They remained with the company after it was purchased in 1959, but they could see that the slot car business was, in Shure's words, "going down the tubes." The company had other product lines; Shure and Gaza did not. The two men then laid quiet plans to assure that there would be life after slot cars.

Realizing that other products would also require miniature motors, they formed a company on the side to explore new markets for their one basic product—a fractional horsepower, permanent magnet DC motor. Today their International Components Corporation is a $30 million a year global business that, despite its low visibility, influences your life every day.

Shure, the chief executive officer, and Gaza, the president, have so highly refined their ability to do business in the worldwide community that they actually represent a Japanese manufacturer *in Japan*.

It all started when they searched for a manufacturer of slot car motors after they founded ICC in 1959. There were only two possible suppliers in the United States. Believing they could do better elsewhere, they found, in 1961, Igarashi Electric Works, Ltd., a small family firm in Japan. They struck a deal with owner-operator Eiji Igarashi for Igarashi's workers to manufacture the motors for ICC's products.

That initial handshake produced a friendship that has spanned nearly 25 years. ICC is now the largest outside stockholder of Igarashi; Igarashi is the largest outside stockholder of ICC. Igarashi's motors—shipped, fabricated into other products, sold and promoted by ICC—have found their way into a whole world of electric toothbrushes, bilge pumps, hedge clippers, cordless electric drills, hairdryers, calculators, automobile windshield washer pumps, cameras, movie projectors and countless other household products and toys.

With the demise of the slot car business Shure and Gaza had to become masters at sniffing out new markets. They tore apart dozens of household products to study the motors and struck gold when they peered into the innards of an electric grass shear. What they saw was a motor nearly identical to one produced for them by Igarashi. In 1966 they sold 500,000 motors for the grass shears—more motors than they had sold in the previous five years combined—and were able to go full time at ICC. The following year more than 1 million Igarashi/ICC motors went into the grass shears, and ICC had reached the big time.

The most memorable coup came in the early 70s, when, recalls Shure, "I read an article about Polaroid developing what turned out to be the SX-70. There was a story in *Time* talking about how Dr. Land [Edwin H. Land, founder and chairman of the board of Polaroid Corporation] was developing this product and how in the guts of the camera was a slot car motor that he had found. We began a pen pal relationship with Dr. Land, telling him that we were the experts in the motor."

But Polaroid responded that it already had a vendor for the motor.

"When they went out to test market in Florida, we went down to Florida," Shure recalls. "We picked up one of their cameras, took it apart, copied the motor and tooled it on spec. Then we called up Dr. Land and said, 'Look, we have something we think you might be interested in.' We went into Polaroid

Entrepreneurial success in small motors, animated figures, computer time sharing, new style banking and publishing.

and opened up this box and showed him this motor. He was paying $1.60 per motor and we quoted him a price of about 92 cents. This meeting, which started off to be a push-us-through-the-door kind of meeting, lasted about two days." Before long, ICC was selling Polaroid 5 million of Igarashi's motors a year. Polaroid is still a major customer.

In 1975, ICC established its Plastic Molding Division in Hong Kong. When the creative team in Chicago designed a product that was a natural adjunct to the existing line of a major manufacturer, Shure and Gaza could now offer to fabricate the entire product—motor and housing—and pack it under the manufacturer's label. A Sunbeam hair dryer and a Gillette whirlpool bath are two examples of such products.

With facilities in eight countries and executives who can communicate in a total of 12 different languages, ICC is a true multinational company. But the Chicago office presents the appearance of a basement workshop more than an international corporate center. They still buy products off the shelf and rip them apart to see what makes them run.

What makes Shure and Gaza run? Consider one of their latest innovations, a cordless electric kitchen knife. It is the first in a new generation of cordless kitchen products conceived by Shure and Gaza, designed by ICC, powered by Igarashi motors, and fabricated at ICC's Hong Kong facilities. When Norelco introduces the knife, the consumer will be unaware of ICC's involvement.

Does this lack of visibility rankle the two anonymous innovators? "We're visible enough to the people we want to be visible to," says Shure. "We get enough pleasure out of seeing our goods in various places. We also get a thrill out of watching our customers being very successful with our products and making money. From time to time we've been tempted to take our products directly to the retail market, but we've gotten hold of our senses and said, 'We are good at what we do.' "

—*William Hoffer*

Animated Stars

George Creegan pays careful attention to details of the costumes for his firm's animated figures for store displays, such as those on these pizza chefs.

PHOTO: RAY SMITH

George and Joann Creegan's world is peopled with peppermint elves sliding up and down poles, jolly Santa Clauses patting their stomachs and scary witches shaking their broomsticks.

"Some businesses are stodgy and staid, but this isn't one of them," laughs George Creegan, 49. He has turned a knack for puppetry and a love of children's entertainment into a million-dollar family enterprise by becoming the nation's largest manufacturer of animated characters for store windows and seasonal mall displays.

The 30 employes at Creegan's Steubenville, Ohio, factory turn out about 3,500 animations a year, plus life-size costumes and other promotional materials emblazoned with the characters' images.

Because the cost is relatively low—an average of about $350 for a standard catalog item—these proven traffic builders are affordable to even the smallest business and have become increasingly popular.

Their animation business has increased steadily since the Creegans began their company in 1965. This year's sales are running 25 percent ahead of 1984, and Creegan expects to go well over the $1 million mark.

A new deluxe line of animations is in the works—including a 4 foot-high Santa, dressed in velvet, that moves its head, arms and torso. Creegan also is excited about the company's new mechanical unit that can synchronize mouth movements with a live or recorded voice.

These "super" animations will sell for less than half the price of similar models now available, thus making them widely affordable for stores and displays.

Creegan's love of children's entertainment has expanded into "Creegan & Crow," a daily television show designed to "entertain with substance." It is carried in an area that includes parts of Ohio, Pennsylvania and West Virginia among other markets.

Joann Creegan, who works the hand puppets for the show, had a serious back injury in an auto accident six years ago. Against her doctor's advice, she went to the TV studio and played "Crow"—while lying on her back on a cot. "I could still move my arms," she says.

All this is a far cry from the days when Creegan was a budding tenor with a scheduled audition at the Metropolitan Opera in New York City. Instead, in 1956 Creegan found himself in Air Force blue assigned to come up with children's programing at the first Air Force television station in West Germany.

Faced with the problem of creating

shows, Creegan turned to puppetry, which he learned from German puppeteers.

After the military, Creegan supported his family with puppet shows while he was attending Columbia University.

Eventually he and Joann, who had developed a talent for display in her family's florist shop in Steubenville, were hired by such retailers as Gimbel's to put on seasonal displays. The displays became increasingly elaborate and began to incorporate animated figures. Creegan says mechanical figures are just like puppets, with motors replacing people.

Their popularity and the increasing demand prompted the Creegans to strike out on their own.

A large order in Pittsburgh sent them back home to nearby Steubenville, where they decided to stay in order "to be big fish in a little pond," says Creegan.

"Steubenville is really the suburb of the United States," he explains. "From the Pittsburgh Airport we can ship our products anywhere in the world."

In addition to the Steubenville headquarters, the operation now includes 16 showrooms around the country. The Creegans still create and install a dozen mall displays a year, although they are planning to stop doing them to concentrate on catalog sales.

Puppet shows, often with classical themes, remain a popular Creegan product.

Creegan has indulged his love of opera by creating a puppet version of Gounod's "Faust."

The Creegan Company is a family operation, employing the senior Creegans, a son, one daughter, two sons-in-law and Joann's father.

While he thoroughly enjoys his whimsical, child-oriented creations ("Perhaps I never grew up"), Creegan also is a clear-eyed pragmatist when it comes to his craft.

"This is a highly specialized business that requires a marriage of the mechanical with the artistic," he says. "You don't get into it on a whim. We've come a long way in 25 years. A Creegan animation is a display tool that builds traffic, sells merchandise, and pleases the public."

—*Cecelia Blalock*

All Fired Up For The Publisher

Phil Rosenthal thought he had respect for his employes. But he really didn't know what respect meant until a $6 million fire destroyed his 28,000-square-foot plant, including seven printing presses, in Chatsworth, Calif., early last March.

Within three days, Rosenthal's employes had his company, TV Fanfare Publications, Inc., up and running again, locating the office staff and computers in smaller, temporary facilities and jobbing out the printing.

"It was like a miracle," Rosenthal recalls. "I have people in this company who worked around the clock—I mean worked—until 5:30 in the morning and then went home and came back at 7:30 and did this three, four, five days in a row."

When he would suggest to some employes that they go home for a few hours and get some rest, he says, "They'd say to me, 'Why don't you go home? We've got work to do.'" And throughout the country, salespeople for TV Fanfare, says Rosenthal, "had as good a week selling as we've had in a long time."

Sometimes your sense of values goes awry, muses Rosenthal, "and you start to think, 'I'm really good. I've really done a heck of a thing building this company.' And then something like this happens and you realize you're not going anywhere if you don't have the right people with you."

TV Fanfare's Phil Rosenthal (right) talks with one of the printers who helped put his company back into production after a disastrous fire.

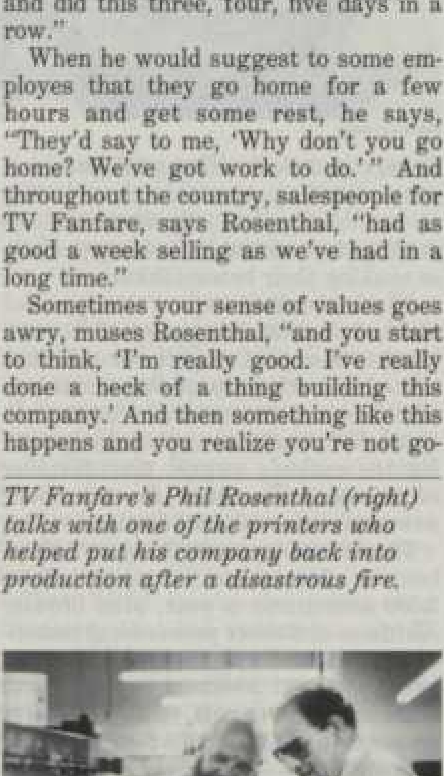


PHOTO: DAVID MARK COMMUNICATIONS

Rosenthal, 53, may have the right people with him, but he also did do a "heck of a thing" building TV Fanfare, which distributes a free monthly television guide, *TV Movie News*, through supermarkets across the country.

After going broke in a business that put sports events on tapes for rental to cocktail lounges, Rosenthal answered a Los Angeles newspaper ad and was hired as a salesman for TV Fanfare, then a 20-year-old local company, in 1971.

"I had to borrow $60 from my father to rent a Mercury Comet for a week so I could go to work," says Rosenthal.

It was a tough thing for an almost-40-year-old man with three children to do.

But within six months, he had become TV Fanfare's top salesman, and owner Ben Cooper moved him up into management. It was Rosenthal who took the company national, opening up its first out-of-state office in Denver in 1972.

When Cooper decided to retire last year, Rosenthal went to the bank where he had once borrowed the money to finally buy that rented Mercury Comet and asked for a new loan—this time to buy TV Fanfare.

He took along his son, Jeffrey, who had been selling bonds, to handle much of the negotiation. The sale was completed in July and Jeffrey, 27, has since joined his dad's company as executive vice president.

Rosenthal looks at the supermarket as an advertising tool for local advertisers—small businesses like beauty shops and hardware stores. They buy a business card ad in TV Fanfare's bread-and-butter publication, *TV Movie News*, which is distributed free to shoppers by participating supermarkets. About 6,500 editions of *TV Movie News* are printed monthly, and Rosenthal says he has 100,000 advertisers, who pay about $10 a week each.

TV Fanfare also offers a newer publication, *Sports & Soaps*, which lists major sports events, provides news on TV soap operas and includes a column by boxing great Sugar Ray Robinson. It is in about 1,000 supermarkets.

Some of Rosenthal's plans were stalled by the fire. He is just now begin-

ning to roll out the "Adcart," a directory of the supermarket that fits into the basket of a shopping cart and carries advertising.

Also being expanded are his "Market Information Centers," bulletin boards that also make use of local advertising. (A supermarket participating in all four of TV Fanfare's programs earns about $1,500 a year.)

When Rosenthal first went to work for TV Fanfare, it was billing about $2.5 million a year in advertising. Billings this year are expected to hit $40 million, and the firm has grown to 29 offices nationwide.

Rosenthal's company has more than 300 employes and an additional 200 independent salespeople.

Earlier this year, *TV Movie News* and *Sports & Soaps* each began carrying two pictures of missing children every month, in a joint program with Child Find, Inc., a nonprofit organization based in New Paltz, N.Y.

It paid off in July, when a brother and sister pictured in *TV Movie News* were reunited with their mother in Brooklyn.

Elated by the find, Rosenthal is looking for sponsors to help him put out a publication, for distribution in schools, that would not only show pictures of missing children but help teachers discuss with their students how they can best avoid being abused, exploited or abducted.

TV Fanfare moved to a 54,000-square-foot facility in nearby Valencia in October.

More than six months have passed since the devastating fire, and one might think that the high productivity and morale that it engendered would have died down by now.

But no, says Rosenthal, his employes have just gotten better.

He has rewarded a number of them with raises, and he has reserved December 15 at The Palace, the Hollywood theater, for a Christmas party—including a circus—for employes and salespeople.

He has never done that before, but he is doing it now, he says, "as a small token of appreciation to them for working so hard and putting us back in business."

—Sharon Nelton

The Best Of Two Computer Worlds

Tim Warren built JTW Computer Systems on a solid foundation of service to customers of his computerized business services.

When Tim Warren graduated from the University of Oregon in 1976, he had an important decision to make. Should he accept a job with IBM, the blue chip giant of the computer industry, or should he expand the computer programing business he had started while in college?

Warren stayed with his own business, and it now grosses more than $1 million annually.

With an ad in the Yellow Pages and $250 borrowed from his dad to pay for a telephone and the first month's rent, he opened an office in downtown Portland. Capitalizing on the fact that many businesses wanted data processing services but could not afford to buy their own computers, Warren began calling on small firms, offering computerized accounting and other business services. In the evenings he processed his clients' work on a rented computer.

Warren bought his own mainframe computer in 1978 and offered his customers shared time on it through terminals in their own places of business. He provided the software programs and training; they paid only for actual computer time and services.

He financed this step with an $80,000 loan, more than four times his total worth. Impressed with the carefully researched, comprehensive business plan he presented, bank officials gave him the loan and some kindly advice not to get discouraged if it took longer than anticipated to achieve his goals. His company, J.T. Warren Computer Service, was on its way.

But Warren was back in four months. Not only was he doing better than expected, he also needed more money because he could not expand his business fast enough.

Warren added a second computer in 1979, and in 1980 he acquired Software Systems, Ltd., the firm that developed the accounting program he has used so successfully.

He has since supplemented the accounting package with other programs, which he markets nationwide to more than 1,000 customers.

Time sharing was profitable in the 1970s because computers were so expensive. With the introduction of mini and micro computers, prices tumbled and many companies wanted to buy

PHOTO RALPH PERRY—BLACK STAR

their own. Unfortunately, says Warren, as the price of hardware came down, so did the level of customer support. But service was the critical ingredient his company supplied.

Warren also started selling the Data General computers he used, so he could offer his customers the best of both worlds.

Warren's customers can try out both computer hardware and software programs to see how they work. They can either remain on time share indefinitely (for an average monthly fee of $500) or buy a system. If they buy from him, they are already familiar with the equipment and programs they purchase, and it is a simple matter to transfer their files from Warren's computer to their own.

By 1984 Warren was "getting bored." He decided to tackle a new challenge. After considerable preparation and an investment of $250,000, he announced early in 1985 that his company, renamed JTW Computer Systems, would franchise its computer service business.

Start-up costs for a JTW franchise range from about $60,000 to $78,000, including down payments on the necessary computer hardware and software. In return, investors will get the benefit of Warren's nine years of experience. And Tim Warren definitely expects to win. With this latest expansion, he will reap sales of about $1.5 million in 1985, 85 percent over 1984, and projects a "conservative $2 million plus" in 1986.

—Joan C. Johnson

Banker For A Change

When Pacific First Federal Savings Bank asked James K. Anderson (left) to take over the company, they knew they were not getting a traditional banker. They didn't want one. Anderson has pulled the bank out of the red and set it on a course of aggressively pursuing new business.

PHOTOS: BOB PETERSON

Four years ago, Pacific First Federal Savings Bank—like many savings and loans—was a victim of high interest rates and not knowing how to deal with bank deregulation. The Tacoma-based bank was $23.3 million in the red and needed a remedy. It found one in James K. Anderson.

When the board of directors of Pacific First Federal asked him to be president, Anderson remembers responding, "Why are you talking to somebody with my background?" The answer was: "Because we think there's going to be more change in the next five years in the savings and loan industry than there's been in the last 50. You're an expert on change and that's why we're talking to you."

Anderson was head of management systems and corporate planning for the California Savings and Loan Association.

He was already a 20-year veteran of the computer industry as a computer specialist, project leader and management consultant when he joined Pacific First Federal. He had also installed one of the first commercial on-line computer systems—which he helped design in 1964 for Sperry-Univac—in Pacific First Federal. Anderson was 28 then and had no idea he would be rescuing that same bank 17 years later from its worst year of losses.

To be a strong competitor, Anderson decided, his new employer would have to get into consumer and commercial lending and create a market research department to develop new customer services. Pacific First Federal would have to "make changes worth changing banks for" and this became the theme to attract more business.

Anderson also has added 10 branches to its 27 retail banking offices in Washington and Oregon. In 1983, the public bank acquired a medical and computer equipment leasing subsidiary in San Rafael, Calif., which does business in 11 western states.

But the bank's most recent and perhaps most impressive addition is the Transamerica Mortgage Company (now Pacific First Mortgage), a former subsidiary of San Francisco's Transamerica Corporation. Acquired in January, the mortgage company with its $3 billion portfolio has boosted Pacific First Federal's total to $5.5 billion.

Anderson, 49, and now chairman and chief executive officer, tells his 1,400 employes that in the new free marketplace of banking, "you're going to have to be very good to survive." He is trying to make survivors of his people. Through special marketing training, Anderson has taught all his employes "not to be afraid of the word 'sell.' You can't wait for the customer to come to you."

And Anderson doesn't wait for his employes to come to him with a problem. He frequently stops by various departments to "make comments and just see what we're up to," says Roy Kimbel, vice president of investor relations and corporate affairs. "He likes to know his people and that's really good for morale, knowing that your chairman doesn't sit up in an ivory tower."

Anderson also wants his 78-year-old bank to be a good corporate citizen. In Tacoma, Pacific First Federal sponsored the July 30th Boston Pops concert, which was part of a 14-city tour across the country to celebrate their 100th anniversary. A sell-out crowd of 20,000 generated $81,163 that went to reviving Tacoma's Pantages Centre for performing arts.

In Seattle, Pacific First Federal cosponsored an event that raised $85,000 for Children's Orthopedic Hospital and Medical Center. The bank paid for a catalog of auction items that appeared on television, while several Pacific First Federal employes volunteered to answer the phoned-in bids. The bank also underwrote $15,000 of the hospital's expenses in putting on the fund raiser.

"People said to us, 'If you're in business to make money, why are you spending $15,000 on something like this?'" says Kimbel. "Essentially, we're helping improve the quality of the community. A high-quality community has good money flowing through it and that's going to help all businesses, not just us."

Other banks have noticed Pacific First Federal's activity. "They're marketing aggressive," says William Ekse, vice president and marketing director of Washington Mutual Savings Bank, of Seattle.

What became of the $23.3 million loss in 1981? Anderson and his energetic employes turned it into a $4.3 million profit in 1984. Anderson says Wall Street analysts are projecting the bank will net $7.5 million this year.

—*Nancy Croft*

MANAGING YOUR BUSINESS

A Frontier For U.S. Business

Communist China—of all places—seems to have become a land of opportunity for capitalists.

By Henry Altman

Stand in the broad plaza before the Hall of Preserving Harmony in Beijing, capital of the People's Republic of China, and you get a glimpse of three Chinas.

You are inside the Forbidden City, home and workplace of the Ming and Qing emperors (1368-1644 and 1644-1911), so you see structures and statuary that are evidence of the awesome past of man's oldest continuous major civilization.

The plaza teems with representatives of present-day China—eager sightseers. These drably garbed thousands are only a smidgen of the world's largest population, which has more than doubled since the Communists took over the country in 1949. The birth rate is now down, because of a government campaign that began in the '70s to limit children to one per family. But the population rose an estimated 11 million—to 1.036 billion—in 1984 alone. The rise was more than the population of New York City.

On the horizon, you see evidence of a future China. Look east, west, north or south—everywhere, high-rises are under construction, festooned with giant cranes.

China, long a slumbering giant economically—the late dictator Mao Zedong (Tse-tung) gave it several sleeping pills, culminating with his anarchic Cultural Revolution—appears to be awakening. That can mean giant opportunity for American business people.

American technology is already in demand. And, says one member of the U.S. business community in Beijing, "What a market this could be someday, as living standards rise and the economy grows! Many of us want to get in on the ground floor."

So do business people from Japan, China's No. 1 trading partner, where there is new emphasis in the schools on teaching Mandarin, the Chinese national language. Hong Kong ranks second in trade with China, and the United States, third. The U.S.-Chinese total is expected to hit $7 billion this year, up from the $2.3 billion of 1979, the year that followed establishment of diplomatic relations between the two countries.

Americans and others think not only in terms of selling in China, but also of taking advantage of low labor costs by buying or joining in manufacturing in China and selling abroad. The climate for that is a lot better than it used to be.

The one-color, uniform-like clothes of Mao's day are still common in China, but more and more people are opting for variety, as incomes and the supply of goods rise with the partial opening up of the economy. Few women wear skirts, though.

PHOTO: HU AN SEN

A giant photo of Mao still looks out on Beijing's 98-acre Tiananmen (Gate of Heavenly Peace) Square, not far from the Forbidden City. But portraits of Marx, Engels, Lenin and Stalin that also hung there were removed five years ago, and the 10-year Cultural Revolution—with its anti-Western, Communist fanaticism, its killings, persecutions and shippings off to the countryside—is only a bitter memory. It ended after Mao's death in 1976.

Under China's present supreme leader, diminutive Deng Xiaoping, there has been increasing experimentation with economic autonomy, competition and incentives. Productive factory workers and managers can get bonuses. Farmers—80 percent of China's population is rural, though only 11 percent of its land is arable—give collectives much of their output but can keep the rest and sell it for profit. Millions of individually owned small businesses have been started. And there has been a strong push for foreign trade and foreign investment, primarily for joint ventures with enterprises from abroad.

Incomes and consumption have jumped. Walk through a shopping area any morning in Beijing, or Shanghai or Hangzhou, and it is like the last shopping day before Christmas in Atlanta, or Chicago or Denver. There are hordes of people in every store of every nature—clothes, tools, musical instruments, food, sporting supplies, you name it. And the shelves and display cases hold many things to buy.

China seems to have gone from Cultural Revolution to Consumption Revolution.

Frank L. Morsani, chairman of the U.S. Chamber of Commerce, is among U.S. business leaders who have witnessed the phenomenon of today's China. Morsani led a Chamber delegation to China in October at the invitation of the All-China Federation of Industry and Commerce, a 500,000-member organization of Chinese with business experience. (Many characterize themselves as having been "capitalists" before the 1949 "liberation" from the Nationalists,

whose government was recognized by the United States as China's through 1978.) The ACFIC's object is to promote business both within China and between China and other countries.

In addition to talking with the ACFIC, Morsani and his delegation conferred with Chinese government leaders and toured production facilities.

Says Morsani, a Tampa businessman: "Investment opportunities in China are probably as great as any in the world today. There are three basic requirements for financial flows—a good labor market, a good return on investment and a stable government. China obviously has the first and offers the possibility of the second. It appears to have the third, as well." He pledged efforts to facilitate economic interaction between China and the United States.

Charles H. Smith, a former U.S. Chamber chairman who was in the Morsani delegation, notes that the consequences of China's increased economic vigor can include competition for foreign business, along with opportunity. Smith, chairman of Cleveland's SIFCO Industries, a maker of forgings—high-strength parts used in equipment—says: "It appears that China will be a very important factor in labor-intensive industries. If you think we have competition now, watch out!"

A recent World Bank study says China has a good chance of reaching a targeted $800-per-capita national income by the turn of the century, up from less than $300 in 1980. That would hardly put the Chinese in the same income category as rich nations' citizens—the comparable U.S. figure in 1984 was $12,500—but they would be in the middle-income bracket.

Beyond that, who knows? China, the third largest nation in area—after the Soviet Union and Canada—has metal and mineral resources that are largely unexplored. Its coal reserves are exceeded only by those of the United States and the Soviet Union. It has the world's greatest hydroelectric potential, an irony when you consider that electricity brownouts are frequent in cities like Shanghai.

As for human resources, the Communists have drastically cut China's once-rampant illiteracy, though only 65 percent of Chinese youngsters finish primary school, and less than 1 percent of college-agers get into college. And as the defeated Nationalists in their island bastion of Taiwan, the Hong Kong Chinese and "overseas" Chinese in Singapore and elsewhere have dramatically shown, a flair for business is characteristic of their ethnic group. A young American stationed in Beijing by IBM, which has opened a Chinese sales office, delights in initiating trainees into the mysteries of the private enterprise system. "When I show them the stock tables and what the figures represent—how you can make money in the market—their eyes light up," he says.

PHOTO: HENRY ALTMAN

Gu Gengyu's animal byproducts firm mushroomed after the Communist takeover. Like Gu (left), Huan Liangchen (right) is an official of Incomic, consultants for foreign firms, and the All-China Federation of Industry and Commerce.

But today's China is still far from being a market economy. Individually owned businesses, which typically have no more than a handful of employes, if any, possess only a tiny slice of the pie. Collectives have a bigger slice, but they are government-controlled to a large degree. And the government owns outright a still larger slice. Virtually all jobs are assigned, not found.

Communist Party leaders late last year released a reform blueprint that called for a "socialist commodity economy with Chinese characteristics."

Says a U.S. government analysis: "Simply put, 'socialist' means that the state will remain the most important economic actor, controlling a large share of the production and distribution of key industrial and agricultural products. Its relative importance will shrink, however, and its means of control will shift to more reliance on economic levers such as prices, taxes and credit, rather than administrative fiat. 'Commodity' means that the allocation of an increasing number of goods will be determined according to market forces—that is, they will be treated as commodities."

One commodity in short supply is management expertise. Enterprises stagnated during the Cultural Revolution. Also, its witch-hunts against accused "capitalist roaders" plunged higher education into chaos, shutting many colleges and universities for years. Young people who might have gotten management training did not.

So China is seeking joint ventures with foreign business not just to get capital and technology, but also to get managerial expertise. The need for such expertise is often obvious to Westerners.

On the 11th floor of the main building of Shanghai's Jin Jiang Hotel—which overlooks a street painted red during the Cultural Revolution by Red Guards trying to demonstrate devotion to communism—seven musicians play American big band-era music nightly. (Until recently, rock music was terra incognita in China. A young Ministry of Foreign Economic Relations and Trade researcher, assigned as an interpreter to the U.S. Chamber delegation, had never heard of the Beatles.) Nowhere in the hotel—certainly not in the elevators as would be the case in the States—is there an obvious notice calling attention to the musicians. They play to a nearly empty room.

Present-day China's first piece of commercial legislation was promulgated in July, 1979—the Law on Joint Ventures Using Chinese and Foreign Investment. Since then there has been a series of laws and regulations involving the investor from abroad. In 1984, according to a Chinese report, 700 equity

A Frontier For U.S. Business

China imports 400,000 motor vehicles (mostly autos) yearly and produces 350,000 (mostly trucks). But much transport is human-powered.

PHOTO: JAMES POZARIK—LIAISON

joint ventures with foreign partners were formed—more than the total launched in the preceding five years. Tax breaks sweeten the pot for the foreigners.

U.S. equity in joint ventures with the Chinese exceeds $150 million, the State Department says—much less than the $600 million-plus that U.S. companies have put into offshore oil exploration in China but, judging by a swelling stream of business visitors to China, only the beginning.

Most of the ventures involve manufacturing. Products range from electronic instruments to razor blades, from canned food to pharmaceuticals, from elevators to Jeeps. American Motors and the Beijing Automobile Works signed a 20-year contract in 1983, with the U.S. firm acquiring a 31.4 percent interest in a $51 million venture.

The path is not necessarily smooth for the U.S. partner in a joint venture. China, desperate for foreign exchange to finance purchase of needed equipment, limits American or other foreign partners' take-home profits to amounts the venture earns abroad. That makes for difficulties, obviously, if the venture's only market is Chinese.

Frank W. Considine, chairman of Chicago-based National Can Corporation, was also a member of the U.S. Chamber delegation that visited China in October. Considine, a Chamber regional vice chairman, says: "The potential is enormous for American investment, but the key problem for U.S. businesses is to create foreign exchange in order to repatriate funds. Creative approaches will have to be found."

One such approach was found for the 3M Company. It saw an opportunity to make electrical tape in China for Chinese customers, though it could not see a market for the tape elsewhere. It rejected a joint venture arrangement. Chinese authorities eventually allowed it to launch a wholly owned operation, which now has 20 employes. "We received a dispensation," says 3M China Affairs Director John Marshall. The company will buy products in China that it thinks can be sold abroad. When it sells them there, it will supply the Chinese with foreign exchange to offset profits it can then take home.

Americans in China to do business face personal difficulties, too. There is an acute shortage of suitable living quarters, and when found, they do not come cheap. A Chinese executive—a factory manager, say—may be paid less than the equivalent of $100 a month, and his workers, half that. Housing for the Chinese is subsidized, but the resident American will pay thousands monthly in rent.

An American lawyer pays $2,000 a month for a small apartment in the China International Trust and Investment Corporation's 31-story headquarters. CITIC, founded in 1979, has pieces of numerous joint ventures with foreign companies as well as all-Chinese ventures. It rents most of its building—which has separate wings for living quarters and offices—to foreigners, for a reported total of $36 million a year. There is so much foreign business activity in Beijing that CITIC has bids out for construction of a second, 50-story, building.

Another American, a businessman, reports the only suitable apartment he could find was in a hotel. His monthly rent for 900 square feet: $6,000.

Americans with children can send them to an English-language school in Beijing, where the resident U.S. community at last count totaled 700, compared with 120 in Shanghai. But classes extend only through primary grades.

Single? "The authorities frown on nonbusiness friendships with foreigners," says a bachelor American executive who lives in Shanghai. "Until a couple of years ago, they were actually forbidden."

Golf? In all of China's 3.7 million square miles, there is just one course—in Guangzhou, the southern metropolis that used to be known as Canton. Beijing is building one.

In addition, there are the obvious language difficulties. Many Chinese in mover-and-shaker circles can carry on conversations in English, but others have no such capability. Available interpreters' knowledge of wording is sometimes questionable.

Some conversations that would be private in this country are not so in China. An American tells of being surprised by an interruption from the operator during a phone call. The Chinese complained the conversation was too fast, making it hard to understand.

An unprepared American visitor to China is apt to have many surprises. For one thing, not all successful business people fled the country or were imprisoned or executed after the Communists' 1949 victory. Many, surrendering their properties, were put in charge of their businesses again after an interim in which the government learned that Communist cadres do not necessarily make factory managers.

Such business people later lay low or were persecuted when the Cultural Revolution's "roughies," as one MIT-educated Chinese calls them, were running wild. But today they talk of adequate compensation for property that the government seized, of restoration of the trappings of wealth and of being able to pass on wealth to their children.

Gu Gengyu had a 500-employe animal byproducts company in Sichuan Province before 1949. He had a U.S. office in New York and was known, he says, as

Food producers, now allowed to sell independently a portion of what they supply, produce more—and earn income to buy other goods.

PHOTO: HU AN SEN

"the pig bristle king" (the bristles are used in shaving brushes). Under the Communists, he says, he ran a 500,000-employe enterprise—all animal byproducts operations, including leather, were centralized. Now 80, Gu no longer runs that business, but he is still active. He is a vice chairman of Incomic Development Corporation, an ACFIC affiliate that acts as a consultant for foreign enterprises in China.

Another surprise is apt to be the extent of American ties of prominent Chinese. Xu Qi-Chao, vice governor of Zhejiang Province, graduated from Arizona State University and got American air force training during World War II. Xu, who greeted the U.S. Chamber delegation in Hangzhou, his province's largest city, was greeting another visitor at the same time. An American-citizen brother was leading touring motorcyclists across China.

Gu Gengyu has two sons and two daughters in the United States. One son, working toward a Ph.D., is among 15,000 students from the People's Republic now in this country. Another such student, also seeking a Ph.D., is a son of Deng Xiaoping himself.

Even Chinese who appear to know no English sometimes produce surprises. At a typical Chinese banquet for the Chamber delegation—15 courses, endless bottoms-up toasts of sweet wine and a 120-proof, clear sorghum liquor called *maotai*—one host suggested a song. He burst into "Stormy Weather," which he had obviously learned phonetically decades earlier.

The biggest surprise of all may be the Chinese people. You see so many of them, all apparently well-fed. (Beggars? Not a one.) Phalanxes of bicycles transport thousands and thousands. On broad boulevards there are special lanes for bikes, but on narrower streets, autos and standing-room-only buses thread their ways through silent cyclists in a manner that can make an American gasp. Staggered workdays for many mean that there is always an anthill-like crowd during shopping or tourist hours. And added income from private enterprise—portions of crops sold independently in the city—means that many farmers now have the wherewithal for bus tours to the Great Wall, the Forbidden City or the sights of Shanghai and Hangzhou.

Private enterprise has also increased incomes in urban areas, where entrepreneurs are in assorted retailing and manufacturing ventures.

Communists often talk about private owners exploiting workers. Do such entrepreneurs consider themselves exploiters?

No, says Liu Guogiang, 26, whose furniture-making enterprise has seven employes. Under his guidance, he explains, workers can increase skills and get better jobs.

That kind of answer would once have been very much out of place in what, after all, is still Communist China.

Americans who live in the country say that there is obviously less repression than there used to be, but that in no way can China be considered a democracy in the Western sense. Will there be more political freedom, will the Communist Party's dominance end? A Chinese "former capitalist" says no and quickly changes the subject.

Deng Xiaoping is 81. Will China turn from its present economic path when he leaves the stage? No, says the "former capitalist." He adds: "China is the world's largest developing country. The United States has the world's largest developed economy. We can do a lot of things together." ■

To order reprints of this article, see page 89.

Where You Can Get Yourself Oriented

Numerous sources of information and help in making contacts are available for Americans who want to do business in China.

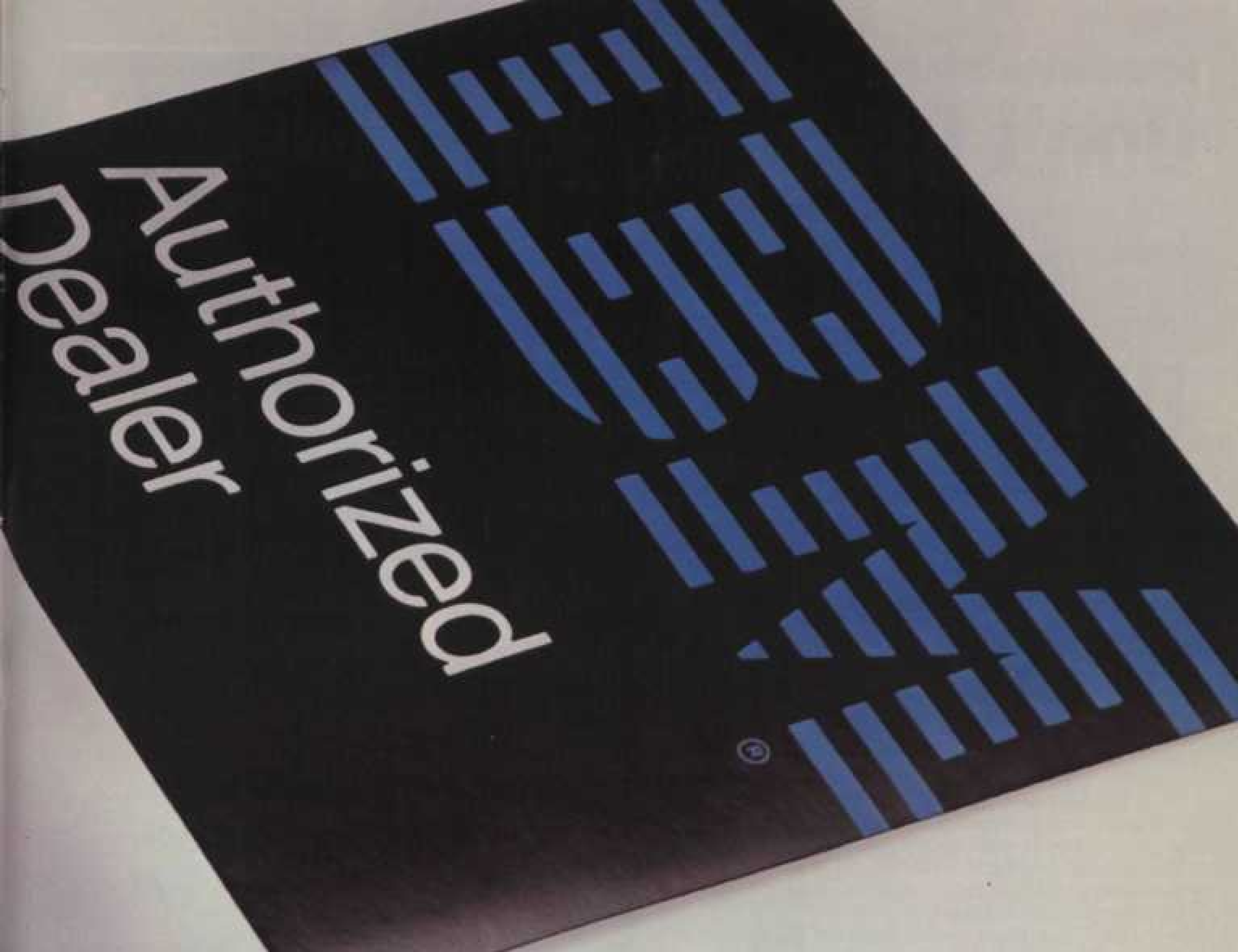
One place to start is the China and Hong Kong Office of the Commerce Department's International Trade Administration, Room 2317, U.S. Department of Commerce, Washington, D.C. 20230. Phone: (202) 377-3583.

In China, U.S. and Foreign Commercial Services officials at America's embassy in Beijing and consulates in several cities can be helpful.

Another source is the State Department's Office of Chinese Affairs, Room 4318, Department of State, Washington, D.C. 20520. Phone: (202) 632-2656.

A private source that provides information and other help on a one-on-one basis to its members is the National Council for U.S.-China Trade, 1050 17th Street, N.W., Washington, D.C. 20036. Phone: (202) 429-0340. The council supplies some general information to nonmembers.

All these American organizations can provide information on such Chinese sources of aid as the All-China Federation of Industry and Commerce, 93 Dong-An-Men Beijie, Beijing, China. Phone: 55-4231.



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Don't Fall For It

Injuries from falling are not inevitable. You can reduce your chances of being hurt and even lower your risk of taking a fall.

By Robert Pater

Dave M., a middle manager at a utility company, was preoccupied with his work when he took a spill onto his back in his office. He had slipped on the protective plastic mat near his desk. Six months of lost work time, doctors' appointments and sleepless nights later, he still can't sit upright for more than one hour at a time without pain.

It may come as no surprise that many people are falling down on the job and in their lives. Literally.

The U.S. Bureau of Labor Statistics cites the approximately 400,000 yearly slips and falls as the third leading cause of disabling occupational injury. And beyond the workplace? The National Safety Council says falls are the second overall national cause of accidental death (motor vehicle fatalities are first).

It seems that everyone falls: children at play, adults at work and home, senior citizens frequently. With the understanding that falls among older people often precipitate a flood of medical problems, West Coast health maintenance organization Kaiser-Permanente recently received a medicare grant to research ways of preventing falls among the elderly.

Slips and falls usually occur at floor or ground level, rather than from a height, according to safety statistics. Common resulting injuries are sprains, fractures (of ribs, joints and bones), dislocations, bruises, cuts and concussions. Sometimes people injure themselves in twisting to catch themselves from falling.

If there were ever a skill everybody needed throughout their lives, it is learning how to prevent and reduce injuries from falling.

What can you do to reduce the risk? First, avoid situations that may lead to falling, and second, protect yourself in any unavoidable fall.

Be aware of high risk areas: anywhere the walking surface changes (carpeted area ends and wood floor begins, plastic mat under office chair meets carpet), wet grass, gravel parking lots, snowy/icy pavement, stairs, bathtubs, curbs on sidewalks, windy areas, ladders and other elevated sites.

Robert Pater heads FallSafe, a Portland, Ore., safety training firm.

To prevent falls, you should be especially careful when the surface underfoot changes. In snow or ice, it is better to walk like Groucho Marx: head and upper body forward.

PHOTO: DAVID VALDEZ

Pay close attention as you move through these fall-hazard zones. During wintry weather, carry with you a pair of crampons that stretch over shoes or boots. Used in mountain climbing, these devices add metal teeth to your footwear and give excellent traction in snow or ice. They are available at many sporting goods and mountaineering stores.

In a slippery area, walk like Groucho Marx; point your toes out, duck-footed (for improved lateral balance), and keep your knees well-bent. *Don't push off* from your rear foot, or you will be in a state of continually falling forward. Like Groucho, *pull* your weight from the front foot.

Use your head properly. It is a heavy body part; moving it slightly can influence your balance. Tilting your head back to gaze at the top of a staircase shifts your balance to the rear, making backwards falls more likely. Instead, look up with your *eyes*, and keep the crown of your head the highest point of your body. (In other words, hold your head up high, but don't put your nose in the air.)

Use common sense. Don't carry heavy or cumbersome objects up and down stairs. Take the elevator. Bulky objects can block vision, raise your center of gravity, and prevent you from using your hands to ward off a fall.

Don't wear high heels if you climb stairs frequently. Avoid leather soles in wet weather.

Keep your walking surfaces clear. Paper, tools, machinery, or children's toys can be fall-inviters.

Some chemicals can counteract slipperiness. Western Slipstop (P.O. Box 288, Anaheim, Calif. 92805, 714-991-5923) manufactures one guaranteed to make wet or dry areas safe for a minimum of five years. In liquid form, this can be applied to building plazas, tiled areas, kitchens or pool decks.

What can you do should you take an unavoidable spill? Protect your most vulnerable areas first, then safely spread the force of the fall.

Better to break your back than your head, wiser to fracture an arm than crack your spine; better still, take the brunt of the fall on soft tissue. (Tenderize the meat, don't pulverize the bones.) Don't, however, maneuver yourself to land on your posterior. It may contain your largest muscle, but falling on it can injure your back.

Shelter your head by tucking it to either shoulder. Think of "biting your collarbone." This position maximally shields the head, prevents whiplash and can help you avoid falling directly on the spine.

Don't hold your breath when you fall. Internal compression can cause injuries. Do the natural thing—scream (something like, "SHOOT!").

Hit it before it hits you. With your inner arms, slap the surface before it contacts you. This helps spread the force away from your vulnerable areas.

Falling safely is a complex skill. Tuck these ideas away in the back of your mind, with an occasional mental review.

Share them with employes. Workplace falls cost billions. In 1983, New York State businesses alone shelled out more than $128 million in direct compensation for employe falls, an average of more than $5,500 per injury.

When you need it most, one idea from this list may prevent your falling to pieces. NB

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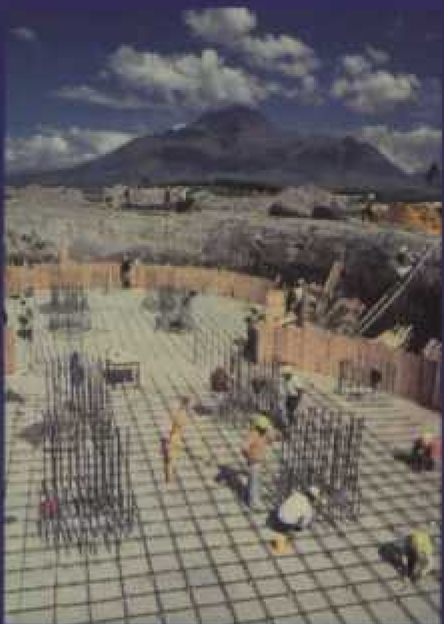

E C U A D O R

Economic Freedom— And Recovery

Leon Febres Cordero, chosen President of Ecuador in a democratic election 16 months ago, came to office from private enterprise. In a reflection of that orientation, he is frequently referred to as "the chairman of the board" of his country. He answered questions about Ecuador's economic progress in a recent interview.

What is the basic framework for economic policy in Ecuador today, and how successful do you think your government has been in dealing with economic problems of the type that have been affecting most Latin American countries?

I have defined myself as a man who has produced much more than I have consumed. Therefore I have always felt I have made a contribution to society. That same attitude is the cornerstone of the economic policy of the government. We want to be efficient, to increase production and to obtain a higher standard of living for the people of Ecuador.

Now, if you want to be efficient and increase production and the standard of living, you must make choices on the kind of political and economic systems needed to organize society. Once you have made those choices, you have to apply the most appropriate measures and policies for the systems to work their best.

Democracy is the way in which our society is politically organized—not only because our constitution so determines, but, more importantly, because deep in the hearts of our people there exists a strong democratic conviction. Democracy, a political system that guarantees freedom and civil rights and allows for political pluralism, ought to be accompanied by economic freedom. In other words, individuals must be able to decide what to produce, when to produce and for whom to produce. We believe in the social market economy, with absolute cooperation and harmony between labor and capital within the mandates of the law, as the economic system that logically and naturally goes hand in hand with democracy.

That is why we have been applying the policies that make the system work best. We removed distortions like price controls, we dismantled subsidies, we implemented a foreign exchange program that does not overvalue our currency, we allowed financial mobility through a system of interest rates freely set by financial intermediaries, and we controlled public spending.

As a result of all this effort, we were able to refinance our external debt with the international financial community after reaching agreement with the Paris Club. Foreign investment is coming—especially in the oil sector, where major contracts have already been signed for more exploration. Inflation has been drastically reduced; for the past five months the average monthly increase in the price level has been 1 percent. External arrears have been totally eliminated, and the foreign sector has recovered its dynamism. Domestic savings have jumped, and

Cover photo credits, clockwise from top: Marco Cruz—Andina Expeditions; Inter–American Development Bank; Michel Picard; Inter–American Development Bank.

Ecuador's Chief Executive has private enterprise, antiprotectionist answers to his country's problems.

financial stability has been achieved.

Economic growth was above 4 percent in 1984 after a negative growth rate in 1983. There is no doubt that good policies give good results. We feel that we have achieved a lot for Ecuador's economy in only 16 months of government. The success we have had in stabilizing our economy allows us to concentrate on solving our social problems. Economic stability and prudent fiscal management are very valuable if as a result you can attend to the pressing needs of the people. Our efforts have been directed toward those needs, not toward showing the best statistics.

What is the new industrial policy in Ecuador, and what kinds of incentives are being used to attract foreign investment?

As I said before, we believe in the market, we believe in supply and demand, in economic efficiency. However, we are not making any theoretical experiment with the Ecuadorian economy. We are conscious that for many years the industrialization model that prevailed in most Latin American countries, the import substitution strategy, led to many inefficiencies and economic distortions. Countries devoted resources to activities in which they did not have any comparative advantage. Those distortions cannot be removed overnight. Our policy in the industrial sector has been and will continue to be that of a gradual dismantling of protectionism. We eliminated subsidized interest rates, we eliminated the overvalued exchange rate that meant a big subsidy to firms importing large proportions of raw and other materials. We lowered the tariff structure and eliminated import prohibitions and import licenses. We have been doing all of this on a gradual basis. Firms that were overprotected for many years through state intervention will now have to rely on the market instead of quotas, licenses, price controls and high tariffs.

With regard to the second part of your question, we are making every effort to attract that crucial ingredient of economic development: foreign investment. We signed an agreement with the U.S. Overseas Private Investment Corporation, becoming the first country of the Andean Pact Group to sign such an agreement. A seminar was held in Ecuador in cooperation with the United Nations Industrial Development Organization for potential investors.

But most important of all, we are offering foreign investors a country in which there is social peace, order, respect for

Oil Investment In Ecuador

In August, 1982, the National Congress of the Republic of Ecuador, following extensive consultations with every social and political sector of the country, approved legal and tax provisions governing new service contracts for exploration and exploitation of hydrocarbons.

Since then, two rounds of bids have taken place, resulting in seven service contracts and the arrival in the country of many oil companies of recognized standing: Exxon, British Petroleum, Shell Oil (Pecten), Texaco, Occidental, Continental Oil, Diamond Shamrock, Belco, Hispanoil and Norneco.

A hydrocarbons service contract, which covers four years for exploration and 20 years for exploitation operations, is based upon the following philosophy.

- The risk of exploration is exclusively borne by the oil companies. Only if such exploratory effort results in commercial discoveries of hydrocarbon reservoirs are the contractors entitled to reimbursement for their investment and for a service fee payment.
- A contract is awarded in a competitive process that originates with an open, international call for bids. The method for evaluating them is known in advance to all bidders.
- The contract's economic pattern is flexible and depends upon the potential quantity and quality of oil to be found, transportation facilities and whether the reserves are located onshore or offshore.
- It not only provides for exploration and exploitation of hydrocarbons, but it also covers long-term marketing of crude oil. The contractor may have a preferential option to purchase up to 50 percent of the exportable balance.

Such contracts conform to the national government's objectives—to guarantee that there will be an availability of oil reserves and an exportable balance that can strengthen the future of Ecuador's economy. Today 70 percent of Ecuador's exports depend on oil.

Now the national government plans to open two new rounds in January and July of 1986. The purpose will be to award between eight and 10 new service contracts in the Amazon region (in the country's southeast) and on the coast (Gulf of Guayaquil and Manabí).

The national government is confident of being able to fully achieve its petroleum objectives because (1) Ecuador has a large potential in oil, (2) the standard contract is competitive within an international context, (3) reliability has been demonstrated while handling the contracting process and (4) above all, the government has been able to instill confidence in Ecuador among foreign investors.

CEPE

democratic principles and an efficiently managed economy. All of these in a country whose people love and respect God.

You mentioned the Andean Pact. What is its future?

We cannot speak about the future of the pact. It will depend on what the governments of the member countries decide in the coming months. But I can assure you that the government of Ecuador has insisted on the need to make the pact a practical agreement instead of a romantic set of declarations and intentions that have not proven to be successful. Revision of Decision 24 [limiting foreign investment in Andean Group countries] has encouraged most member countries to adopt more flexible regulations regarding foreign investment. A meeting attended by ministers of foreign affairs was held a few weeks ago. They all agreed that the Andean Pact has to be revised in order to make it into a more viable proposition.

Ecuador is inviting all the ministers to meet again, in our country, in order to discuss the necessary changes that the original agreement requires. The pact's member countries are showing more than ever before the political will to change its structure and philosophy. We have played an important role in this change of attitude, and we hope to keep playing that kind of role in the near future. Our conviction still remains, though, that all forms of cooperation and integration among Latin American countries are or should be a basic goal of our external policy.

What sectors of the economy will get priority attention from the government?

The first and most important element in any economy is its stability. You cannot support agriculture or industry or mining if inflation is out of control, if public spending bears no reasonable relationship to GDP, or if the exchange rate depreciates dramatically every day. Therefore, the achievement of overall stability of the economy was our first priority.

On the other hand, there are sectors to which the government will devote more resources and energy: the agricultural sector, which is labor–intensive and provides raw materials for industry, and the energy sector, because it has an important impact on the balance of payments. Agroindustry is also a key sector in our plans. The mining sector has received a lot of attention from the government. We have just passed a mining law that we think is quite attractive to foreign investors. We are convinced that Ecuador has very important mineral deposits, and we hope to develop them in the near future.

Part of Ecuador's emphasis on self-sufficiency is this hydroelectric project under construction in Paute.

PHOTO: INTER-AMERICAN DEVELOPMENT BANK

There is another sector that deserves attention from the government: housing. We promised during the campaign to build 120,000 dwellings for lower– and middle–income people. This is considered a high priority sector for several reasons. First, the construction sector is labor–intensive and contributes to an increased employment level. Second, a self–sustained housing program gives incentive to people to save, and savings are a crucial element for overall economic development. Third, the housing shortage is an enormous social problem. If people have a sense of ownership, the principles of private property become stronger in their minds.

The debt problem is quite significant for Latin America. What are your views on the issue?

There is no doubt that the debt problem has reached proportions that threaten the political and social stability of many of our countries, even though Ecuador has successfully rescheduled its external debt.

We have made painful adjustments in our economy, and we have negotiated agreements with our creditors.

All the propositions that have been made—capitalization of interest rates, a cap on the interest rate, fixing a proportion of exports to serve the debt, increasing the flow of resources—boil down to the same issue: whether or not a country can pay all of its interest charges. The fact is that some countries cannot, and I have to admit very frankly that the banking community, the international organizations and the creditor governments have been extremely slow, not to say insensitive, in reacting to the pain and social distress that many countries are experiencing.

I am not saying that Treasury Secretary James Baker's plan, presented at the IMF–World Bank meetings in Seoul, is a good or a bad plan. But I have to say that it astonishes me that it has taken more than three years since the outbreak of the crisis for an official international proposal to be made. This situation cannot last any longer. The political decision to solve the problem has to be made by the governments of the industrialized creditor nations. There must be an easing of some banking regulations and pressure on the international organizations—and in turn on the banking community—to reach comprehensive agreements. All of these are elements that have not been present in the negotiations to date.

The pain has to be shared. We have always said that the debt has to be paid. We maintain that repudiation of the debt is not the solution, but we insist that without the understanding and proper political decisions of the governments of the industrialized nations, the problem will get worse instead of being solved.

A Welcoming Message

From the middle of the world, Ecuador invites companies, investors and businessmen from America to join in the experience of this nation, which is resolved to ensure its future through the consolidation of the free market economic system, written into the Constitution of the Republic.

A population characterized by honesty, ability, hard work, ingenuity, warmth and deep faith supports a government that offers a business climate conducive to productive work and guarantees security for private initiative.

From the sea to the volcanoes, Ecuador has a wide variety of natural resources, many yet to be exploited, and a diversity of land and microclimates.

Antonio Teran, President
Ecuadorian–American Chamber of Commerce

Industry: Economic Recovery

In order to expedite the country's economic recovery, the Ministry of Commerce and Industry (MICEI) has made it a priority to concentrate on the following areas: industrial development, foreign trade, foreign investment, fishing, mining and tourism. In only 16 months of the present government, the country has seen a positive turn as a result of this policy.

Industrial Development

The new policy for industrial development has been structured with a goal of making industry self–sufficient and less reliant on the state. This will allow a uniform development of the various zones and regions within the country, help generate employment, bring in more foreign currency and increase technology. This strategy has focused on the exploitation and industrialization of those of the country's natural resources that present a clear international advantage. The result will be appropriate conditions for foreign investment, selective technology transfer, efficient regional and subregional cooperation, access to new foreign markets, more efficient capital investment and a better understanding between workers and managers.

In view of these objectives, MICEI has proceeded to create or revise internal legal mechanisms that will permit industrial and commercial self–sufficiency.

Tariffs

To fully reach the government's goals, MICEI has designed new customs tariffs that favor efficient industrial development and protection, without jeopardizing tax collection. This new tariff policy will strengthen and maintain the market economy, which is the basis of this government's economic philosophy.

In this field, MICEI has reoriented the country's development policies under criteria that will help maintain the efficiency of existing industries while progressive deregulation is introduced.

Price And Quality Control

This is an important mechanism for the development of Ecuador's industry. Prices will no longer be controlled politically. In the past this was a measure taken by Ecuador's governments which jeopardized and discouraged the productive sectors by pushing up inflation and encouraging illegal import practices. Quality control is de-

Economist Xavier Neira Menendez, Minister of Industry and Commerce, who came to government service from the private sector.

signed to protect the consumer from abuse and speculation and to give economic incentives to the producer by ensuring good profit margins.

Foreign Trade

Emphasis is given to the following policies: promoting traditional and nontraditional products, stronger emphasis on bilateral trade without neglecting multilateral trade, searching out new foreign markets, strengthening financing mechanisms for export finance, increasing technical assistance for export promotion, providing counseling and promotion for private industry, and revising requirements and procedures for exports and imports to help expedite the trade process.

Foreign Investment

All of these changes have been channeled to attract foreign investment to projects of national interest so foreigners can share risks, technology and markets with the Ecuadorian investor. Improvements for encouraging foreign investment are: selection of priority investment sectors, simplification of negotiations for investment and registration, and clarifying legislation and local regulations.

Fishing Industry

Fishing constitutes one of the most important industries in the country because it supports a large number of workers, generates foreign currency from exports and is a vital source of nutrition. Ecuador's government has given priority to the industry not only by designing a promotion policy, developing infrastructure and preserving endangered species, but by restructuring the legal framework to permit development of an effective fishing law.

The government, through the Undersecretary for Fishing of MICEI, administers the fishing development law, channeling

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Industry: Economic Recovery

Animals of the Galapagos Islands, a natural zoo without bars where none of the animals fear people.

PHOTOS: METROPOLITAN TOURING

national and foreign investment to this industry.

Mining

Ecuador offers some of the best possibilities in this hemisphere. Studies point to an enormous mining potential, but extensive and intensive exploration must still be done. Exploration of already identified mineral deposits is a government priority, and that presents opportunities for foreign investors with adequate capital and know-how.

The government has recognized that the mining industry required new legislation to make it attractive to foreign investment. This has been enacted, and it is a pragmatic modification of previous regulations.

Tourism

Ecuador is one of the smallest countries in South America, yet it is one of the most varied in the continent.

It is divided geographically into four natural regions.

The lowlands offer some of the most beautiful and serene beaches along the coast. Warm and calm waters all year round, white sands with palm trees reaching almost to the shoreline, abundant seafood and excellent fishing make this natural region a real paradise.

The highlands contain the Andes, which cut Ecuador's topography all the way from Colombia to Peru, forming a spectacular "Avenue of the Volcanoes." The region has interesting folklore, opportunities for trekking and mountain climbing, unique and colorful Indian markets and the Ingapirca Inca ruins.

The jungle is an almost virgin region where nature still rules, offering its visitor a practically infinite variety of wildlife.

The Galapagos Islands, famous from Darwin's voyage, form a zoo without bars, an aviary without bird cages and a garden without fences.

The group of islands is located 600 miles off the shore of Ecuador, and none of its animals fear people.

OPIC's Mission

OPIC returned to Ecuador recently after a 13-year absence. OPIC President Craig A. Nalen attributes much of the mission's success to the assistance of Ecuadorian officials and business leaders. "I am especially grateful for [Ecuadorian] President Leon Febres Cordero's interest in the mission, which was instrumental in creating a constructive atmosphere in which to conduct business," says Nalen.

Ecuador's Solution To Its Debt Burden

The following remarks were contained in an address by Dr. Carlos Julio Emanuel, head of the Central Bank of Ecuador, to a meeting of finance ministers of Latin American debtor countries in Havana. The meeting was hosted by Cuban President Fidel Castro to encourage those countries to repudiate their external debt. Ecuador strongly disagreed with that approach.

I should start by saying that the fact that I have been seated during this meeting at the extreme left of President Castro has no relationship whatsoever to the ideological posture of the government I represent.

Ecuador, like the rest of Latin America, is suffering under an increasingly serious debt problem. Most of our problem can be traced to poor management of the economy by a series of governments that we have elected and/or tolerated, dating back to our independence in 1830.

We should ask ourselves who forced Latin America to maintain expansionary fiscal and monetary policies, to contract external debt to pay bureaucracy, to maintain fixed interest rates and overvalued exchange rates while experiencing inflation, to continue with a harmful industrialization process, to abandon the agricultural sector, to increase our external indebtedness with commercial banks instead of with international development agencies, to become indebted for unproductive military purposes, to prohibit foreign investment in an effort to avoid dependency on foreign capital and end up being even more dependent on it through foreign debt?

In the past decade Ecuador's external debt was owed to international organizations at long-term fixed interest rates with generous grace periods. We now owe most of our debt to commercial banks on short terms at floating interest rates with practically no grace periods.

It is important to recognize that Latin Americans have a responsibility for their external debt. Even though we cannot deny that external factors beyond our control affect our countries, our own policies have played a very important role in the crisis we now face.

By the end of 1984, the total Ecuadorian foreign debt reached $7.1 million, which implied a 75 percent debt service ratio for 1985. This financial situation was unsustainable. For this reason, the first priority

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FEEL THE DIFFERENCE GENERAL MOTORS MAKES

Ecuador's Solution To Its Debt Burden

Dr. Carlos Julio Emanuel, head of the Central Bank of Ecuador, part of the government team that renegotiated Ecuador's external debt.

of the new government was the renegotiation of the external debt, since no other economic policy could have permitted us to pay our external obligations.

In order to deal with the crisis, Ecuador designed an economic program, which would have been adopted even if there had been no need for a new loan from the IMF. It served as the basis for the debt renegotiation with the foreign banks and with the Paris Club. The refinancing process must be accompanied by economic policies designed to attain development and to generate foreign exchange to service the external debt.

The new Ecuadorian government has taken several steps: It has modified and placed the exchange rate at real levels, restructured the interest rate system to stimulate savings and disciplined fiscal policy to reduce the deficit and inflationary pressures.

It is an austerity program that does not ignore needed improvement in the living conditions of our country.

Our agreement with foreign banks, reached in December, 1984, represents significant relief for our balance of payments. We obtained a multi-year refinancing agreement, covering maturities for the next five years. The debt service has been reduced for the renegotiation period 1985–1989 from 68 percent to 28 percent.

Our experience shows that Ecuador does not subscribe to the thesis of non-payment of external debt; we believe that the foreign debt has to be serviced, but to the extent that it does not affect the social and democratic stability of our countries.

We believe in bilateral negotiations with foreign banks in external debt matters. Thus, the renegotiation process should reflect the individual circumstances of each country.

In solving the debt problem, we do not discount such new ideas as interest rate ceilings, interest capitalization and fixed debt service ratios. However, they cannot replace the true solution to the problem, which is adequate and coherent economic management.

In short, the Ecuadorian government, as soon as it assumed office, faced our crisis in a serious and pragmatic manner, rather than in a romantic fashion. We did not wait for the crisis to be resolved by itself, or for someone else to resolve it for us.

To further economic cooperation between the United States and his country, Ecuadorian President Leon Febres Cordero will pay an official visit to the United States January 8.

PERSONAL

For Your Tax File

Tax cut for 1986? Dream on; the one thing that is certain is an increase in payroll taxes.

By Gerald W. Padwe, C.P.A.

No Cuts In These Taxes

With the year winding down, the issue of tax reform is still a big question mark. Will income tax rates for individuals and corporations decrease in 1986, 1987, or ever? As you wait for your Christmas package of tax forms from the Internal Revenue Service, 1986 is certain not to bring good news on at least one tax front.

Starting January 1, payroll taxes will ratchet up another notch. This year, the rate of Social Security tax imposed on wages has been at the rate of 14.1 percent, split equally between employer and employe. For 1986, the rate goes to 14.3 percent. Thus, an employe's share of the tax will rise from this year's 7.05 percent to next year's 7.15 percent.

In addition to the rate increase, the base on which the tax is imposed has also been rising. That base is $39,600, and wages above that amount are exempt from payroll taxes. (In 1975, only $14,100 was subject to payroll tax; in 1965, only $4,800.)

For 1986, the wage base will rise to $42,000, putting an employe's maximum FICA taxes at about $3,000.

For self-employed individuals, the news is worse. Since they do not share payroll taxes with an employer, their rates have been lower in the past than the combined employer-employe percentage. For 1985, they will pay a maximum amount of $4,673 to the Social Security and Medicare trust funds; for 1986 that maximum will increase to about $5,160.

Happy New Year.

401(k) Plans And FICA

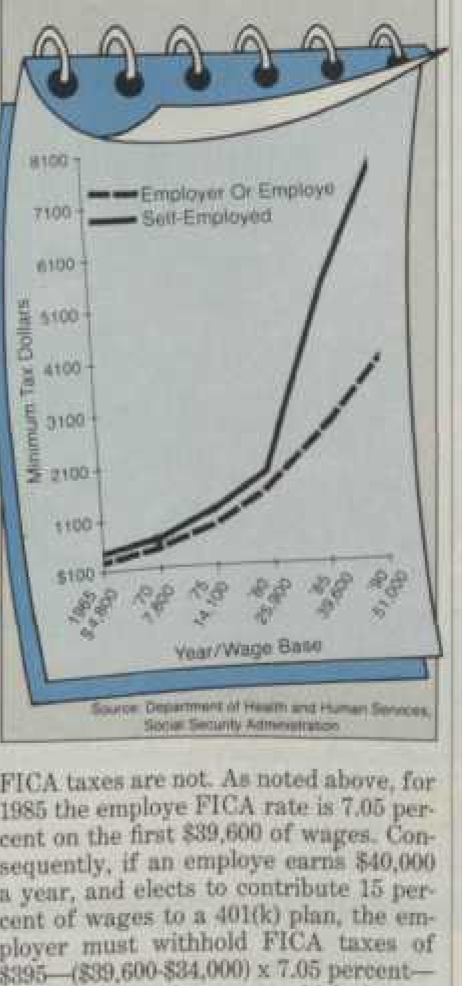
The popularity of salary reduction or 401(k) plans is growing. Many companies now offer employes an opportunity to defer tax on as much as 15 percent of their salary if that percentage is contributed to a retirement trust account. The employe's federal income tax is deferred until the account is withdrawn, and the account will grow rapidly due to tax-free compounding of earnings.

Although income tax is deferred until the withdrawal date, Social Security or FICA taxes are not. As noted above, for 1985 the employe FICA rate is 7.05 percent on the first $39,600 of wages. Consequently, if an employe earns $40,000 a year, and elects to contribute 15 percent of wages to a 401(k) plan, the employer must withhold FICA taxes of $395—($39,600-$34,000) x 7.05 percent—attributable to the wages which the employe is not currently receiving.

If the employer matches some or all of the employe's contribution, the employer's contribution is not subject to FICA taxes either when contributed or when withdrawn.

However, the news is not all bad for the employe. The $395 is credited to the Social Security account (as is the $395 employer's share), and helps build greater Social Security benefits after 65. And, the 401(k) contribution also accumulates, tax free, for a more financially secure retirement.

The Trend In Payroll Taxes



Source: Department of Health and Human Services, Social Security Administration

An Estimable Wrinkle

An interesting decision in the U.S. Claims Court will help some taxpayers avoid a trap.

Most corporations, and some individuals, are required to pay estimated taxes on a quarterly basis. Penalties are imposed if the estimated payments turn out to be less than 90 percent of actual taxes, but the penalty does not apply if the quarterly payments are at least equal to a pro rata portion of last year's tax.

Consider this situation: For 1984, a taxpayer incurs an operating loss, so that no tax on income is due. During the year, however, a few office typewriters and desks are sold, resulting in recapture of several hundred dollars investment credit.

This is paid with the 1984 return, but no estimated tax is paid for 1985, since the 1984 loss resulted in no tax on "income."

But in 1985, which turns out to be a banner year, the tax is $1 million. The celebrating will hardly have ended, however, before the IRS will be suggesting that the taxpayer owes an estimated tax penalty, with $1 million as the starting point for computing the amount of underpayment. Why? Because the IRS says the few hundred dollars of investment credit recapture for 1984 is a "tax," and estimated payments at least equal to that tax were not made.

The Claims Court has rejected this argument. It says estimated tax penalties will not be imposed where only recapture tax is involved for the prior year. That is the good news. The bad news is that the Claims Court decision conflicts with earlier cases decided in both the Sixth and Seventh Circuit Courts of Appeal.

Normally, taxpayers do not have a great choice as to the circuit in which to bring an action against the government. However, since the favorable decision is in the Claims Court, which is a court of national, rather than regional or local, jurisdiction, any taxpayer can sue for a refund there.

TECHNOLOGY

The Cutting Edge

New smart cards with computer chips are out to put a stop to credit card fraud and theft.

By Karen Berney

Credit Cards Get Smart

MasterCard is experimenting with a smart card that does almost all the work of a sales clerk.

PHOTO: ROGERS & COWAN

The U.S. credit-card industry is adopting information-processing technology to deter credit theft and fraud. Use of a customized microprocessor implanted in the plastic cards was pioneered in France 10 years ago, but only now has the U.S. industry seized on the enormous potential of these "smart cards."

First out of the gate is MasterCard International, which has issued computer chip cards to 40,000 test customers in Columbia, Md., and Palm Beach, Fla. It hopes to begin distribution in 1987.

Stored in each circuit's memory is the cardholder's name, account number and a personal identification number designed to ensure that no one but the owner uses the card. The card is inserted into a special point-of-sales terminal connected to a central computer, and the amount and identification number are entered to complete a purchase.

Visa says it is developing a "super smart" card combining a computer chip and a calculator-like keyboard with buttons for credit, checking and savings account transactions. Still 18 months away from introducing a prototype, Visa says its smart card would not need special terminals.

American Express and the other major credit card firms "will not want to be perceived as technology laggards," says Blair C. Shick, an analyst with Arthur D. Little, Inc., of Cambridge, Mass., and will be moving into smart cards themselves.

A magnetic stripe card costs about $1.50 to produce compared with an estimated $1.95 for the integrated circuit version. And it will cost close to $40 each to upgrade existing terminals to read and process smart card data, says MasterCard executive vice president John C. Elliot.

The question is whether the savings gained from stopping fraud—a problem that will cost the industry $300 million this year—will justify adopting chip technology now. Visa thinks not, and while preparing to launch its super-card in the late 1980s, argues that greater security can be achieved for less in the interim by simply upgrading magnetic stripe technology.

An enhanced magnetic stripe card, which the firm will issue in a pilot test early next year, uses a "watermarking" technique to make the information contained in the stripe unalterable. Unlike the chip cards, the enhanced card would not require merchants to buy new point-of-sales terminals to read them.

Both MasterCard and Visa say the success of smart cards depends on the development of voluntary, industry-wide standards to encode and transmit information.

To ensure smooth conversion, MasterCard has set up a standards steering committee that includes representatives from both Visa and American Express.

Small Bytes

☐ Computer slump? Believe it. This year will register as one of the worst in the history of the U.S. computer industry. According to the Computer and Business Equipment Manufacturers Association, revenues will creep up 11.5 percent to $141.7 billion from $121.7 billion last year. This compares with a growth rate of 17.3 percent in 1984 and an average annual growth of 14.1 percent from 1974 to 1984. Next year revenues will increase about 12 percent, says the trade group.

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TECHNOLOGY

Let Edgar Do It

A new electronic system at the Securities and Exchange Commission saves filers time and money.

By Karen Berney

It was a normal business day in the dead of winter when the General Motors Acceptance Corporation in Detroit sent a courier to post a $500 million bond issue at the Securities and Exchange Commission in Washington, D.C. But a heavy snowstorm had blanketed the Northeast, leaving the messenger stranded at the Detroit airport. A week passed before GMAC's filing reached its destination. By then "our market window of opportunity had slammed shut and we had to reprice the bond at a less favorable rate," recalls GMAC's assistant controller, Robert Folbigg.

Now, however, GMAC hits its market windows regardless of the weather. As one of 150 corporate participants in an SEC pilot program to automate the submission and processing of filings, it takes only seconds for GMAC to fire off reports to the SEC.

Operationally, that means "the ability to decide on a debt issue at 9 a.m. and have it in the SEC's hands by mid-afternoon." And in volatile capital markets where timing is key, "that makes all the difference in the world," Folbigg says.

Folbigg's praise is for "Edgar"—the Electronic Data, Gathering, Analysis and Retrieval System. Edgar's one-year trial has been so successful that it's slated to be expanded to accommodate electronic filings by the SEC's total population of 10,000 corporations by 1989.

Once on line, Edgar "will revolutionize both the dissemination and creation of corporate information," says Kenneth Fogash, executive deputy director at the SEC.

The commission's voluminous database—the SEC receives 6 million pages worth of filings annually—is stored on microfiche. These can be examined free of charge in the SEC's public reference rooms across the country or purchased by order from the Bechtel Information Services in New York and Gaithersburg, Md. (The firm is part of the San Francisco-based Bechtel.)

The problem is that unless a representative is stationed at an SEC office, important, time-sensitive information may either go undetected or arrive too late to do any good.

With Edgar, access to information af-

Robert Folbigg, assistant controller of the General Motors Acceptance Corporation, was hurt by bad weather on an important SEC filing. A new electronic system will allow filings in seconds.

PHOTO: JOHN C. HILLERY

The SEC receives 6 million pages of filings every year, which it stores on microfiche. They can be examined at the SEC's reference rooms, but companies can lose valuable time if the information is time-sensitive.

PHOTO: T. MICHAEL KEZA

fecting securities markets will be almost instantaneous. Within an hour of receiving a public offering, for instance, Edgar will beam it to the SEC and state security administrations. Simultaneously, the feed will be transmitted over one or two of the nation's telecommunications networks such as GTE Telenet.

That will enable anyone within reach of a personal computer and a modem, whether at home or in the office, to tap SEC regulatory news as soon as it breaks, much as they now can with online data services like Compuserve or The Source, says Fogash.

It remains to be seen, however, just how widely the service will be used. If a development is that important, "we usually know about it way before the SEC does," claims Thomas Kurlak, a semiconductor industry analyst with Merrill Lynch Pierce Fenner and Smith, Inc.

Nevertheless, whether a company uses Edgar to file or retrieve information, Ray Cochi, vice president of state and government relations for the National Association of Securities Dealers, believes Edgar's payoffs will be enormous. Besides the obvious time advantages, Edgar will save money. "I'd expect industry savings on printing and postage alone to exceed $30 million," Cochi estimates.

Moreover, Edgar will increase industry efficiency and productivity, contends Fogash.

Presently, only 2,000 corporations are well-tracked by investment firms. In making analysis both quicker and easier, Edgar promises coverage of more companies without the costs of hiring additional resources, Fogash says.

"In our opinion, the new attention Edgar may direct toward our company is an even more valuable feature than the time and money we will save on filings," says Wayne Boston, manager of financial services for Southern Company Services, Inc., an Atlanta-based holding firm for a group of Southern utilities and also a participant in the pilot program.

Walter Ginn, corporate secretary for another Edgar test runner, Sohio Company of Cleveland, sees benefits in terms of improved internal operations. "With direct transmissions we'll be able to call up Exxon's 10K, place it next to ours on a computer screen and compare notes," he says. Ginn says that could lead to new and better ideas on how to prepare annual reports, proxy statements and other filings. What really excites potential users, though, is not Edgar's raw data capability but rather its proposed marriage to a powerful new technology, artificial intelligence.

Comments Kurlak: "I would have no use for Edgar at all as a database containing primarily historical information on corporations."

What would be useful to Kurlak would be the ability to manipulate that data to compare performance ratios among semiconductor companies. Sound easy? Not so, because many companies use different nomenclature and accounting methods to prepare balance sheets.

Edgar takes on this challenge by exploiting expert systems technology—a branch of artificial intelligence that puts the knowledge of experts in computer software for use by nonexperts. Two elements make expert systems work: a knowledge base, which contains rules of thumb about a particular subject or condition, and an inference program that consults the knowledge base to arrive at a solution to a problem.

Expert systems will enhance Edgar's value in two ways, reports Tom Ross, a software engineer who is developing them for the SEC under a $9.8 million contract awarded to the accounting and consulting firm Arthur Andersen & Company last year.

One program, a so-called virtual language processor, will overcome the nomenclature hurdle. For instance, if a user wants to identify every corporation that has recently amended its antitakeover bylaws, the processor will search each file for key words suggesting such a change and pinpoint and retrieve them.

The other system, a financial statement analyzer, will translate quantita-

Kenneth Fogash, executive deputy director of the SEC, says the new data retrieval system will be able to accommodate all the commission's 10,000 corporations by 1989.

PHOTO: T. MICHAEL KEZA

tive information like net and gross income into a standard format to facilitate comparative analysis.

While Edgar has every chance of being a technological success, many in government see it threatened by the SEC's unique proposal to fund it. Developing software and procuring hardware for Edgar will cost more than $63 million—an investment the commission wants the contractor to absorb in exchange for the exclusive right to sell the SEC's database to the public.

But lawmakers question whether revenues from the public will be sufficient to cover the project's internal budget, reports Tony Cicco, an information processing analyst who is monitoring Edgar's progress for Congress at the General Accounting Office. In addition, they have challenged the SEC for assuming that the private sector will be ready and willing to bid on the "developmental" aspects of Edgar, especially since such costs are unlikely to be recovered from user fees.

Finally, Edgar raises a policy dilemma that has yet to be resolved. "In proposing a contract of nearly no cost to the government, the SEC is seeking to circumvent the appropriations process," says Cicco. If Congress loses the power of the purse, it will also lose control over SEC activities. That's the kind of power Rep. John D. Dingell (D-Mich.), chairman of the House Subcommittee on Oversight and Investigations, is not too keen on relinquishing, says subcommittee counsel John Chesson.

Fogash says the SEC is working on a funding proposal that will address the subcommittee's concerns. By no means does he expect Edgar's development to be stalled by the funding issue. In fact, Fogash predicts a roaring success that will become the model for other government agencies with information automation plans in the works. The Internal Revenue Service, for one, is "very interested in our ability to handle electronic filings," and is closely watching Edgar unfold, he says. NB

To order reprints of this article, see page 89.

How Edgar Works

The Securities and Exchange Commission's electronic system for receiving and disseminating corporate information "is so user friendly it's ridiculous," comments General Motors Acceptance Corporation's Robert Folbigg.

With a user's manual, personal computer and telephone line, a company is ready to start doing business with the SEC paper-free. Edgar protects your messages against hackers by scrambling it with the government's Data Encryption Standard during transmission. At the receiving end, only SEC staffers with the right ID code and password can retrieve your file, and under no circumstances can they modify or change it without your approval, assures the SEC's executive deputy director, Kenneth Fogash.

Whether your file is rejected, accepted or contains errors, Edgar will let you know, but only if you subscribe to MCI's electronic mail service. Otherwise the SEC will respond via the post office—a big drawback in the view of Walter Ginn, corporate secretary at Sohio Company.

"If you don't use MCI mail, you don't know whether your file has been received, lost or simply garbled in route," Ginn notes.

THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Should Affirmative Action Requirements Be Abolished?

Companies that do business with the federal government must meet affirmative action requirements in hiring and promotion. Critics argue that making personnel decisions on the basis of race, ethnicity, gender or other nonmerit standards is a form of discrimination against those who are not hired or promoted because they are outside the protection of the affirmative-action regulations. Advocates of affirmative action say it is necessary to allow the protected individuals to overcome effects of past discrimination. Should affirmative action requirements for federal contractors be abolished?

2. Drop All U.S.-Canada Trade Barriers?

The United States and Canada trade more goods and services than any other two partners in world trade. Next year, the two countries will discuss proposals to increase that trade even further by abolishing trade barriers between the two nations. Those urging such a course say an open-trade agreement would stimulate demand in each nation for the other's products and services, thereby raising employment in both countries. Opponents argue that Canada would gain the most, because the American market is so much bigger than its own. Should there be open trade between the United States and Canada?

3. Reform The Civil Justice System?

Smaller businesses are finding it more and more difficult to obtain liability insurance at any cost. There are other signs of an impending insurance crisis that could threaten the ability of many firms to stay in business. Insurance companies say the availability and cost of coverage reflects a surge in lawsuits resulting in excessive damage awards. Proposals for corrective action include reform of the civil justice system. Opponents of any such changes argue that the existing system is fair and adequate. Should the civil justice system be reformed in a way that would help make business risks more insurable?

Verdicts On Spending Vetoes, Small Business Fees, Speed Limits

Here is how readers responded to the questions in the October issue's Where I Stand poll.

	Yes	No	Undecided
Should President Reagan veto spending bills that exceed the levels set by Congress in its first budget resolution?	86.8%	6.5%	6.7%
Should the Small Business Administration charge user fees to defray a portion of its expenses?	66.0%	23.6%	10.4%
Should the speed limits in effect prior to the 55-miles-per-hour edict be restored?	61.4%	35.0%	3.6%

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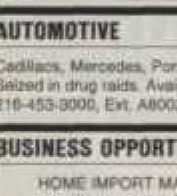

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MANAGING YOUR BUSINESS

Franchising

Maryland now offers equity financing for people like Almie McIntyre (center) and Sylvia Hill. Left: the state's Katherine Lockhart.

By Ripley Hotch and Andrew Sherman

Many members of minority groups do not have the capital to start their own businesses. As a result, they have had to rely on special Small Business Administration loans or some state and city loan programs.

An innovative approach to the problem is Maryland's new equity financing program for "socially or economically disadvantaged persons."

The state stepped in, says Stanley Tucker, director of the Maryland Small Business Development Financing Authority, because "There's really no equity financing available for minority businesses, period. That's nationwide."

The state legislature saw franchising as a way of helping minorities into business because it "mitigates the risk factors," says Tucker. In fact, the legislature was unwilling to pass an equity financing program until Tucker limited it to franchising.

PHOTO: SUSIE FITZHUGH

Maryland has set aside $1 million for its 1986 fiscal year for MSBDFA to buy as much as 45 percent of the voting stock of a qualified franchisee, up to a limit of $100,000.

The state will get its investment back as the value of the business builds, royalty payments come in, and the owner eventually buys back the business.

Despite the fact that the state will sit on the franchisee's board as a major stockholder, franchisors are, according to the Maryland Division of Securities, rushing to register in the state so they can offer their franchises to this new group of franchisees.

Tucker says the program will start in January. Already the prospects are lining up.

Sylvia Hill and Almie McIntyre, Jr., both from Baltimore, are planning to become partners in a franchise business. Hill started a service to manage state aid for retarded citizens, and McIntyre is a successful salesman for large office machine accounts.

But Hill's agency, much as she loves it, is nonprofit. And McIntyre is still working for someone else, much as he likes his job. They want two things:

"Part of me wants to continue this program for the retarded," says Hill. "But another part of me is interested in making money. So that's the reason I wanted to do a franchise."

Besides the money, McIntyre thinks in terms of what he could do to help both himself and others. "I have a 19-year-old son. Another reason I want to get in the business is that I have a lot of nephews who are 19 and 20 years old, and I'd like to give them something to do. Some of these kids are having trouble finding jobs."

The state's presence on their board is also seen as a plus by McIntyre and Hill, as an extension of the kind of help they will get from the franchisor.

"These people are not going to let you go wrong," says McIntyre. "They're going to follow you all the way through. They'll help you with bookkeeping, accounting, managing."

"I think the most inviting part of the program is the support system," says Hill. "That's a crutch, and sometimes you need a little bit of a crutch when you're starting out. It's kind of hard when you're doing it alone."

For more information, write or call: Stanley Tucker or Katherine Lockhart, Maryland Small Business Development Financing Authority, World Trade Center, Suite 1353, Baltimore, Md. 21201; (301) 659-4270.

Andrew Sherman is a third-year law student at American University in Washington.

Managing By Instinct

When profits fell, Joseph Jacobs redesigned his management and built success on a smaller foundation.

By Chris Barnett

When founder Joseph Jacobs stepped back from day-to-day operations of Jacobs Engineering Group, profits skidded: "We were not as fast on our feet as we should have been," he says. He made changes decisively, and the company is doing well.

PHOTOS: CHRIS CASLER

There is a sign in the living room-like office of Joseph J. Jacobs, chairman of Jacobs Engineering Group, Inc., that reads: "Babe Ruth struck out 1,330 times."

The 69-year-old chemical engineer is not a baseball buff, but he has built Jacobs Engineering into a formidable and feisty international construction company by letting his employes swing for the fences and not benching them when they strike out.

"The freedom to fail is one of our most precious freedoms, but it's difficult for people to accept that, since failure involves anguish, the trauma of defeat, the diminishment of pride," says Jacobs. "But without failure, there would be no success. How do you measure success except against the possibility of failure?"

Jacobs, a managerial maverick, simply refuses to be straitjacketed by the classic management theories and the corporate pomp and protocol preached at business schools. He leads largely by gut instinct, and he gauges performance the same way.

In addition to monitoring traditional measures of success, this chief executive officer calculates "net return on brainpower." He divides after-tax earnings by the number of employes on staff—400 at headquarters in Pasadena, Calif., 1,200 at 14 offices around the country and two abroad—and comes up with profitable productivity per person.

Says Jacobs: "It's an accurate reflection of the competency of your managers—when you're making money, that is. If you're not making money, your management is incompetent."

In 1983 and 1984, there were no profits. In 24 months, Jacobs Engineering piled up $14.4 million in losses while revenues plummeted more than 50 percent. Pitted against global design and contracting Goliaths like Bechtel Corporation, Ralph M. Parsons Company and Fluor Corporation, Jacobs Engineering was hurt by an economic downturn, particularly in the energy sector.

Yet the chairman did not blame the economy for the company's ills. Jacobs freely admitted in the 1984 annual report that the company, hungry for revenues, didn't stick to its guns in bidding only on cost-reimbursable contracts.

"This led to an ill-advised rash of fixed-price bids for construction," he wrote. "In an effort to preserve staff, our major asset, many of these projects were bid with slim margins. Our losses for the past two years have been from a combination of high overhead and excessive losses on these projects."

Jacobs stuck by his management during two rough years. When it was clear that his team was consistently losing, he decided it was time to make player changes. Again, Joe Jacobs did it his way—he trimmed from the top.

Eight of 14 vice presidents departed. He tightened up expenses in every department. "We reduced our overhead to 60 percent of what it had been."

But it wasn't fast enough, and the boss, who had started to back off a bit from the business in the early 1980s, shouldered the blame for it. "We were not as fast on our feet as we should have been had I been in on the day-to-day management of the business during that period."

Clearly, that loss shook up more than the management team. Jacobs himself, who owns 36 percent of the stock, took on the additional post as president to assume more control. Realizing that the Bechtels and the Fluors had the edge in bidding on the occasional giant generating plant, Jacobs concentrated on smaller, specialized facilities to treat toxic wastes and process chemicals (the company has three decades of engineering expertise in petrochemicals).

He also started peddling the firm's design savvy to the U.S. government. "Our traditional industrial markets were falling apart, so we had to find new markets," says Jacobs.

This repositioning was coupled with a renewed corporate commitment to avoid fixed-price bidding at all costs, no matter how potentially lucrative the project looked. "I became the court of last resort and had to say 'No, we're not going to bid for it even if we lose revenues,'" the chairman says. Thus, the company that designed and built the $425 million Arab Potash Company in Amman, Jordan, is zeroing in on far more manageable projects like a research and development center for

Chris Barnett is a California freelance writer.

Jacobs' company does not try to outbid engineering giants, but concentrates on building specialized facilities to treat toxic wastes and process chemicals.

Lockheed Missiles and Space Company in Austin, Tex., a phosphoric acid manufacturing facility for Gardinier, Inc., in Fort Meade, Fla., and an addition to Community Hospital of San Gabriel, Calif., all with $20 million price tags. Jacobs also landed a real plum—a Department of Energy contract to modify the government's Fernald, Ohio, depleted uranium facility and design systems for disposing of low level radioactive wastes.

With new, smaller projects coming in the front door, the chairman has been concentrating harder on overhead dollars disappearing out the back door. Nothing has been sacred, including the company pension program, which was scrapped. "It was not substantial enough to be a real incentive to employes," explains Jacobs. He plans to replace it with a "thrift savings plan" where the company will match employe contributions.

The chairman believes employe benefits have gotten out of hand. "They are a weak substitute for caring," he says.

With a combination of cost-cutting and whip-cracking, Jacobs Engineering has a leaner management team. "There was no question but things were top-heavy here at one point," concedes Ron Lovecchio, a sales coordinator at the company's headquarters. Jacobs himself puts it more bluntly when he talks about the management team he replaced. "I'm being perfectly candid. Not many of those people had the stomach to do battle. They weren't as hungry any more."

More importantly, the chairman will once again be hauling out his cherished "net return on brainpower" yardstick; Jacobs Engineering Group is back in the black. For the first nine months of fiscal 1985, the company earned $1.7 million, a sharp turnaround from the $5.7 million loss suffered in the same period a year earlier. Revenues for the first nine months hit $162 million, up from $124 million for the first nine months of fiscal 1984.

Joe Jacobs is not your garden variety chief executive officer. He stretches out in his easy chair next to the fireplace in his office to conduct meetings, or he sits at a small table; he has no desk. "Desks were invented when people wrote things out in longhand," he says. "I analyzed my work habits about 20 years ago and found that 90 percent of my time was spent talking—either on the telephone to a client or face to face with an employe or to a secretary when I was giving dictation. A desk isn't necessary for any of those things. Besides, a desk creates a barrier between you and your guest."

Jacobs also bubbles over with suggestions and strategies that he likes to bat around with his senior managers. "Joe's a creative guy who has a lot of ideas," says Frank Culberson, managing partner with Pace Consultants, a Houston-based energy consulting division of Jacobs Engineering. "Not every one of Joe's ideas is a winner, but he likes to brainstorm them with you."

"He is a clear and logical thinker who is decisive and resolute," says Paul Hallingby, senior partner with Bear, Stearns & Company, New York, and the investment banker who took Jacobs Engineering public in 1970. "He believes in his own instincts, his own convictions. You only see people like this in business once in a while—[Harold] Geneen, Armand Hammer—but Jacobs doesn't put on any dog at all, zero, none. He's a plain guy."

Son of a Lebanese refugee who arrived in New York in 1886 and made his way in life selling needles, thread and notions, Jacobs watched his father grow rich as part owner of a company that made straight razors, go broke when the safety razor was invented and eventually fall victim to the Depression. Young Joe began forging his convictions as he struggled through Brooklyn Polytechnic Institute (known today as the Polytechnic Institute of New York), emerging with a doctorate in chemical engineering in 1942.

Today, he serves as the chairman of the celebrated engineering school and is a trustee of Harvey Mudd College at Claremont, Calif. He lavishes time and money on both schools to advance the engineer to a level of professionalism and erase the image of the desk-bound drone clinging to a calculator.

Jacobs quietly works to help the elderly cope with their problems. For his civic and humanitarian efforts, Jacobs won the 1983 Hoover Medal.

Not surprisingly, Joe Jacobs has blazed some trails in managing engineers. He calls it "matrix management" and installed it at Jacobs Engineering some years back. It gives a worker two bosses—a chief and a project manager. If the latter is unhappy with the worker's productivity, the chief must be consulted to resolve the problem.

Jacobs is convinced that the client benefits from matrix management. While there may well be friction among the factions, "it's good friction because there is a lot of interaction and communication," says the chairman.

There is no friction among members of the Jacobs family over who might take over the business when Joe steps down; none of them will.

"I once worked for a company where the son of the founder became president, and it was a miserable situation—not for me but for him," Jacobs says. "I made up my mind when I started this business 38 years ago it would not be a family business."

Marrying the boss' daughter won't help either. No sons-in-law can vault into the executive suite. "I'm doing them all a favor. If I just brought the kids into the business, they'd never know if they really had any ability, so I told them all early on they were going to have to make their own way in life."

They listened. Jacobs' three daughters are all accomplished professionals "with their own personalities and their own careers," he beams.

And they're not waiting for trust funds to land in their laps some day. "I told them there would be enough money if they ever got sick and couldn't work, but there is nothing else," he says. "I'm giving the rest away." ■

COMMENTARY

Congressional Alert

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members of Congress should be sent either to U.S. Senate, Washington, D.C. 20510 or to U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Balanced Budget Amendment	Passage would improve economic climate by forcing Congress to eliminate deficits primarily through spending cuts, not tax increases. Eventual elimination of deficit could ease pressures on interest rates.	Members of the House and Senate: Support congressional efforts to approve an amendment to the Constitution requiring a balanced budget and limiting tax increases.
Tax Reform/ Simplification	While provisions for simplifying tax law could eliminate paper work in preparation and filing of some business and individual taxes, other parts of reform bill would increase costs of capital investments, threatening future economic well-being of the country. Other antigrowth provisions of bill could have adverse impact on business.	Members of the House and Senate: Carefully consider any proposed changes in the current tax law, especially capital cost recovery and foreign tax treatment proposals. Tax reform should stimulate capital formation, encourage technological advancement, enhance international competitiveness and help to create jobs.
Taxation Of Employe Benefits	Employers could be faced with employe demands for higher pay to offset reductions in take-home pay as a result of taxes on worker benefits. An indirect employer expense could be higher taxes as workers gave up private-sector benefits rather than pay taxes, turned to government for them.	Members of the House and Senate: Changes in the tax status of employe benefits would seriously damage a system that now works well in providing for the retirement and economic security of American workers. Support use of tax incentives to encourage the private employe benefits system.
Plant Closing	Companies could be forced to continue operations at money-losing plants if Congress passes a pending bill requiring 90-day notice and consultation with affected workers before such plants were closed. Talks would cover alternatives and modifications to decisions involving plant closings or layoff of 50 or more workers or a 50 percent reduction in their hours.	Members of the House and Senate: Oppose plant closing legislation. It would create a great potential for abuse by organized labor by giving unions an additional tactic against employers—delay—and every incentive to use it.
Immigration	Employers would be required to keep extensive records on screening of job applicants to check citizenship status if House version of immigration bill passes. Businesses could also be subjected to complex new antidiscrimination regulations under the House approach. Under the Senate bill, recordkeeping would be optional, and no new antidiscrimination machinery would be established.	Members of the House: Support a bill that makes recordkeeping optional and does not contain new discrimination provisions concerning aliens.
Product Liability	The heavy insurance and litigation costs businesses face as a result of the sharp increase in product liability suits could both be reduced through passage of uniform rules for such litigation in state and federal courts. Businesses would have to deal with the uniform standard, rather than operate at heavy expense under the many state laws that now govern product-liability cases.	Members of the House and Senate: Support concepts contained in bill sponsored by Sen. Robert W. Kasten (R.-Wis.) to establish uniform rules for product liability cases in state and federal courts.

COMMENTARY

Editorials

Reform that could hurt more than it helps. And helpful reform in another part of the world.

Don't Undermine Economic Growth In The Name Of Tax Reform

When the Treasury Department a year ago announced its recommendations for a massive overhaul of the Byzantine federal tax code, business expressed concern about several provisions of the plan that would have threatened investment incentives needed for economic growth.

President Reagan modified some of the more onerous aspects of the Treasury plan before submitting it to Congress in May as his own long-awaited tax reform program.

Though the President's plan did not meet all the business community's objections, he showed a greater awareness than did the Treasury of the importance of protecting the economic growth that creates tax revenues in the first place.


PHOTO: T. MICHAEL KEZA

The tax proposals went to the House Ways and Means Committee, which is now considering yet another version, one drafted by its staff.

This plan represents a major step backward in the effort to achieve meaningful reform.

The plan would set a maximum of 35 percent on corporate income tax rates, compared with the 33 percent ceiling recommended by the President.

It would eliminate or drastically curtail two of the most important incentives for the type of economic growth that took the nation out of the recession of the early 1980s—the investment tax credit and accelerated depreciation allowances. And it would impose a series of changes in the tax code that would substantially increase the cost of doing business in the international marketplace at the very time that the nation is struggling to increase exports and reduce the trade deficit.

The committee staff plan spotlights a basic cause for concern over the way Congress has been approaching overall fiscal policy. The committee agrees with the President that any tax reform program be "revenue neutral"—that tax reductions in one area be offset by increases in another. But there is a very real danger that, to many members of Congress, this policy simply means increasing business taxes to make up for revenues lost in politically popular concessions to favored interest groups.

The Ways and Means Committee is going down the wrong road at the wrong time. Its members should gain a historical perspective. Popular support for the cause of tax reform arose from the belief of many taxpayers that the revenue collection system had grown excessively complicated and allowed some taxpayers to avoid paying a fair share. Those concerns should be addressed directly, and economic growth should not be undermined.

The Benefits Of Change In China

In 1979, after Communist China's rulers decided their country should not be so Communist, Chen Xinghua did something that was now permissible.

She had been waiting to be assigned to a job. Instead, she started her own business. Her capital equipment: a sewing machine that cost the equivalent of $35. The business: making Western-style clothes.

Chen's products were good, there was a market for them—particularly among the growing numbers of Chinese going abroad to study—and she was able to sell the clothing at a profit.

Soon she took on two apprentices. A newspaper story about her brought her more customers, and she bought sewing machines for the helpers.

More business, and she bought two more machines—one of which, she says proudly, uses electricity. Chen, 32, now has four helpers. Once again, as it has so often in this country, private enterprise had created jobs.

Meanwhile, a government-operated clothing factory that had hundreds of workers was having troubles. The authorities were dissatisfied with what and how much the plant was producing and selling.

They had a thought: Why not ask Chen to run the failing factory? She is now doing so, while keeping an eye on her own business. Her knowledge of the profit system should stand the factory in good stead.

In microcosm, that is what has been happening in China: A turn toward market thinking and market forces is transforming a giant nation. (See the article on page 65.)

The turn is making China a land of opportunity for U.S. business—though an authoritarian country can always reverse itself quickly.

As China and its people continue to discover the advantages of a market system, however, it will become more and more difficult to turn back.

While China's increasingly consumerist society will offer trade and investment opportunities to many nations, the principal beneficiaries of what is happening will be the Chinese people. The public benefit, as has been proven repeatedly throughout history, is what free enterprise is all about.